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UNIVERSITY OF DURHAM

**Arab Regional Integration:
A Neo-functionalist and Transactionalist Analysis**

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By

Ramy A. Lakkis

**A thesis submitted for the degree of Doctor of Philosophy in International
Relations of the Middle East**



10 OCT 2003

Institute for Middle Eastern and Islamic Studies

2003

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DEDICATION

I dedicate this thesis to the affectionate memory of my father Ali
A. Lakkis (1933-88).

ACKNOWLEDGMENT

In the preparation of this thesis, I wish to acknowledge the support of my mother and sister and the financial assistance of the British Council and the University of Durham, Institute for Middle Eastern and Islamic Studies.

I am grateful to my supervisor Professor Rodney Wilson and to Emeritus Professor Gordon Batho.

LIST OF ABBREVIATIONS

AADO	Arab Agricultural Development Organisation
ABEDA	Arab Bank for Economic Development in Africa
ABSU	Arab Broadcasting Stations Union
ACAI	Arab Company for Antibiotics Industries and their Appliances
ACC	Arab Cooperation Council
ACDIMA	Arab Company for Drug Industries and Medical Appliances
ACOLID	Arab Company for Livestock Development
ACM	Arab Common Market
AED	Arab Emirate Dirham
AEUC	Arab Economic Unity Council
AIDMO	Arab Industrial Development and Mineralogy Organisation
ALECSO	Arab League Educational Cultural Scientific Organisation
ALO	Arab Labour Organisation
AMF	Arab Monetary Fund
APC	Arab Potash Company
ARABSAT	Arab Satellite Communications Organisation
ARADET	Arab Company for Detergent Chemicals
ARAVET	Arab Veterinary Drug Industries and their Appliances
ARMICO	Arab Mining Company
ATC	ACDIMA-TANVEC Consultancy
CM	Common Market
CU	Customs Union
ECSC	European Commission for Steel and Coal
EEC	European Economic Community
ESCWA	Economic and Social Commission for Western Asia
EU	European Union
FLUOBAR	Compagnie Minière du Fluore et Barytine
FTA	Free Trade Area
GAFTA	Greater Arab Free Trade Area
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GNP	Gross National Product

ICAO	International Civil Aviation Organisation
ID	Iraqi Dinar
ISI	Import Substitution Industrialisation
JD	Jordanian Dinar
KD	Kuwaiti Dinar
KPICO	Kuwait Pharmaceutical Industries Company
LAS	League of Arab States
NAFTA	North American Free Trade Area
PLO	Palestine Liberation Organisation
PSI	Pharmaceutical Solution Industries
QR	Qatari Rial
SAFA	Societe Arabe du Fer et d'Acier
SAIPH	Societe Arabe des Industries Pharmaceutiques
SAMIN	Societe Arabe des Minéraux
SNIM	Societe Nationale Industrielle et Minere
SP	Syrian Pound
SPIMACO	Saudi Pharmaceutical Industries and Medical Appliances Corporation
SR	Saudi Rial
TAPHCO	Tassili Arab Pharmaceutical Company
TD	Tunisian Dinar
UAR	United Arab Republic
UHCS	University House for Consultations and Studies
UNCTAD	United Nations Conference on Trade and Development
WHO	World Health Organisation
WTO	World Trade Organisation

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ABSTRACT

This thesis is a multidisciplinary analysis of Arab regional integration using the neo-functionalism and transactionalist approaches to integration. Neo-functionalism analyses the process of integration in the Arab World by studying the role of regional institutions including the League of Arab States and three Arab joint ventures. The transactionalist approach examines the impact of regional trade on political and economic integration in the Arab Mashreq.

The analysis of the Arab joint ventures is taken further by using elements of business and finance theories. It is conducted on two different levels: the first analyses the operational and financial performance of these ventures. The second examines their role in promoting regional integration especially in the sectors concerned. The analysis is intended to find out whether these ventures were commercially viable or were more politically inspired.

Qualitative information was collected from conducting constructive interviews with Arab economists, politicians and managers of the Arab joint ventures examined. The quantitative data was collected from recognisable resources including the Economic and Social Commission for Western Asia and the Arab Monetary Fund.

The problems encountered in this thesis resulted from the application of these theoretical approaches to integration, which are designed to study integration in politically developed societies with more advanced economies. However, the choice is justified since there are no alternatives. Secondly, the data on trade and Arab joint ventures may not be completely accurate since it does not record all transactions.

The thesis concludes the following: at the political level, regional institutions did not promote Arab integration since they lacked aspects of supranationality and collective decision-making processes. Also, they did not affect the Arab elite's attitudes and could not initiate a viable process of integration that would spill over from one sector to another. At the economic level, the low level of regional trade in the Arab Mashreq did not prevent the occurrence of many attempts at Arab integration. Moreover, the Arab joint ventures were more politically inspired than commercially. Although they were more resilient to economic and political instability in the Arab World, their role in promoting regional integration was limited.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The emergence of the Arab states system after the First World War was marked by an ideological appeal to unite and integrate. The Arab elite blamed the colonial powers for partitioning the Arab World especially after the establishment of Israel in the heart of the Arab land. The calls for liberation were shaped by a unification dream. The ambitious Arab leaders, who came to power through undemocratic means, were manipulating the Arab unity rhetoric to gain justifiable support since they lacked the necessary legitimacy to rule.

The attempts at Arab integration were also influenced and guided by the growing international awareness to integrate, mainly inspired by the successful establishment and growth of the EEC. Regionalism after the Second World War became an institutionalised international policy that had an impact on the Arab World.

Most recent literature did not differentiate between the process of Arab integration and its main driving elements. Moreover, objective and material conditions of integration were not fully examined; the focus was on stressing the role of common history, language and culture/religion. Clearly, literature on Arab integration was lacking constructive analysis of major attempts at regional integration including the Arab joint ventures established by the League of Arab States (LAS).

The debate on Arab regional integration remained ongoing even though its pace was intermittent. Consequently, there is an obvious need to understand the issue of Arab integration from a theoretical and methodological perspective in which the process of integration is examined from a neo-functionalist perspective and the conditions are examined from a transactionalist view. The missing literature on Arab joint ventures

and their role in influencing Arab regional integration ought to be filled. This is why this thesis came into being.

1.2 Research questions

This study aims at answering the following questions. First, to what extent the Arab regional institutions including the LAS and three Arab joint ventures have promoted regional integration in the Arab World at both the political and economic levels. Secondly, what was the influence of trade on attempts at regional integration in the Arab Mashreq? Was there any link between regional trade and aspects of political and economic integration in the region?

Finally, the study of the Arab joint ventures aims at answering the following questions: Were these ventures economically viable and self sustaining? Did they work commercially? Did they have potential political benefits? Did they promote trade relations between Arab states? Were they working more successfully than large scale attempts at regional integration in the Arab World?

1.3 Objectives of the study

This study has three main objectives. First, it aims at examining objectively the attempts at Arab regional integration. The Arab discourse in general has continuously shaped the Arab mind in portraying Arab integration as a safe heaven for Arabs, and the political dialogues in particular praised the leaders' incessant efforts to achieve integration and blamed the West for the failure of their integrational efforts. However, in this thesis an effort is made to analyse how these attempts at integration were approached and what were their conditions and the basic motives of actors.

Secondly, the study aims at analysing the regional institutions, which emerged from the attempts of Arab regional integration such as the LAS and the Arab joint ventures that were established by the Arab Economic Unity Council (AEUC), from a neo-functional point of view. Moreover, this thesis endeavours to examine the impact of regional trade on regional integration using the transactionalist approach by taking the Arab Mashreq as a case study.

Thirdly, the thesis aims at examining the role of the Arab joint ventures in promoting Arab regional integration and analysing their performance. Did they form a model of integration to be followed in the future?

1.4 Methodology

This study is a multidisciplinary work in which international relations' approaches to integration are used in addition to basic elements of finance and business theories. A historical review of integration in the Arab World relevant to the topic was examined as a literature review and as a substance for analysis.

An important pillar of the thesis is the use of the neo-functionalist and the transactionalist approaches to integration. The Arab integration concept was divided into two components: the process and the conditions. Subsequently, neo-functionalism is used to examine the process, and the transactionalist approach is used to understand the influence of economic conditions on integration.

The neo-functionalist approach is employed to analyse the performance of the LAS according to four different questions: first, is the League a supranational institution? Secondly, did the League influence Arab elite's attitudes? Thirdly, did the decision making process of the League promote political integration? And finally, did the League grow by a spill-over mechanism?

Moreover, neo-functionalism is also used to examine the role of the Arab joint ventures established by the AEUC in promoting Arab integration and in particular in setting a process of sectoral integration in motion.

The transactionalist approach is employed to analyse the influence of regional trade on Arab integrational attempts in the Arab Mashreq from 1952 until 1998. The Arab Mashreq is chosen for practical consideration and for other reasons that are elaborated further in the thesis. The regional trade of the Mashreq is calculated by adding the regional trade of each Mashreq state. Then, the regional trade proportion is deduced by dividing the regional trade of the Mashreq by the sum of the Arab Mashreq foreign trade. The trade proportion is charted in different periods; generally each decade since 1952 forms a separate period for analysis. This proportion is matched with different attempts at political and economic integration that occurred during each period. The same methodology is also repeated to examine the influence of trade as an economic

condition on the bilateral and multilateral integrational attempts in the Arab Mashreq. Different tables are constructed for the purpose of this analysis.

The main pillar of the thesis is the analysis of the Arab joint ventures. The research is conducted on two levels. The first analyses the performance of these ventures by examining their objectives, organisational structures, shareholders, branches and subsidiaries and their operational activities and profits. The second examines their role in promoting sectoral integration according to the spill-over mechanism discussed by neo-functionalists.

The quantitative data was collected from different sources. Trade data in the Arab Mashreq was taken from recognised sources such as the Economic and Social Commission for Western Asia (ESCWA) and the Arab Monetary Fund (AMF). The data on Arab ventures was taken from their annual reports in the period 1991-2000. The majority of this data was used to compile most of the tables and all figures appearing in the thesis.

The qualitative element of the thesis is based on conducting constructive interviews with different Arab economists and politicians in discussing previous Arab integrational attempts. These interviews were conducted in London. Moreover, the researcher interviewed managers and peoples associated with the Arab joint ventures. These interviews were conducted in Amman, Jordan and Damascus, Syria, during the researcher's two-month field trip to the Middle East. For the purpose of accuracy all these interviews were recorded on tapes. Moreover, almost all these interviews were performed in Arabic but the researcher did not find difficulty in translating them into English and transcribing them so that they form a useful substance for the thesis.

1.5 Outline of the thesis

This thesis comprises ten chapters including an introductory chapter and a conclusion. Following the introduction, the second chapter discusses the theory of international integration in its regional context. It examines the general definitions of integration in the political, social, institutional and cultural aspects. This chapter also reviews different theoretical approaches to integration, such as functionalism, neo-functionalism, and the transactionalist approach. Functionalism is discussed briefly as an antecedent of neo-functionalism. Neo-functionalism and the transactionalist approach are reviewed

extensively since they are both employed in the analysis of Arab regional integration throughout the thesis. Finally, this chapter divides the concept of integration into two components: the conditions and the process. The background conditions are considered the necessary factors preceding integration whereas the process is its progressive development.

Chapter three reviews the general definition and different stages of economic integration. Economic integration is discussed separately to provide the reader with a better understanding of the concept. The theory is used qualitatively since it includes many stages of economic integration attempted by the Arab countries. This chapter examines the different stages of economic integration: the free trade area, the customs union, the common market, the monetary union and the economic union. The first three stages are discussed in more detail since this study will come across such terms in examining different attempts at Arab economic integration. Finally, this chapter discusses the importance of economic integration as a technique for economic development in the developing countries including the Arab World.

Chapter four is a direct application of the neo-functionalist approach to integration in examining the LAS. This chapter focuses on the historical establishment of the League and discusses two major factors that were behind its formation: the British initiative launched in the early 1940s and the political interests of the Arab founding leaders. It also examines the purposes and functions of the League with a brief review of its organisational structure. The performance of the League is discussed in this chapter from a neo-functionalist perspective. The analysis focuses on the institutional operation of the League based on four different questions addressed by neo-functionalists: supranationality, changing elite's attitudes, the collective decision-making processes and the spill-over mechanism.

Chapter five studies the role of the League in promoting Arab political and economic integration with focusing on the external and structural environment that shaped the League's function. At the political level, this chapter examines the role of the League in integrating the foreign policies of the Arab states, its function in resolving inter-Arab conflicts and its responsibility in facilitating the establishment of an Arab security system. At the economic level, different regional economic attempts instigated by the League, starting from the early 1950s until the establishment of the Greater Arab Free Trade Area (GAFTA) in 1998, are examined. Finally, this chapter discusses the major

economic and political constraints that obstructed the League's function in promoting Arab integration.

The focus in chapters six, seven and eight shifts to the application of a transactionalist approach in studying the impact of regional trade on integration in the Arab Mashreq. The Arab Mashreq is considered because it is a compact region with geographical proximity; secondly, this region witnessed many integrational attempts at the political, economic and military levels.

Chapter six begins with a brief review of the transactionalist approach centring on considering regional trade an economic transaction in influencing integration. It discusses the regional efforts and agreements attempted from 1952 until 1998 by the Arab states to promote inter-Arab trade focusing on the Arab Mashreq. This chapter also examines the different economic, political, structural and physical barriers that influenced inter-Arab trade.

Chapter seven examines the trends of the inter-Arab Mashreq trade starting from 1952 and ending in 1998. This period is divided into five different stages. In each stage the regional trade proportion of the Arab Mashreq is charted in addition to other charts representing the share of each Arab Mashreq state. In addition, the effects of the political developments in the region are examined as well as the external changes and the impact of the regional integrational attempts on trade.

Chapter eight contains an analysis of the impact of regional, multilateral and bilateral trade on regional integration in the Arab Mashreq by employing a transactionalist approach and following the same time series organised in chapter seven. In this chapter, inter-Arab Mashreq trade is studied as a *condition* of integration in the region. Trade is examined as the independent variable whereas major attempts at integration are studied as dependent variables.

Finally, chapter nine is mainly an evaluation of the Arab joint ventures that were established by the AEUC and studies their roles as alternative models of Arab integrational attempts after the numerous setbacks of the larger schemes. The analysis of these ventures is conducted according to two related perspectives. The first studies the performance of these governmental companies in implementing their objectives, and the second examines their roles in promoting Arab regional integration. In this chapter, repetition is left intentionally by the author in studying each Arab venture separately.

The aim is to reveal the role of each one in promoting Arab integration in the sector that it is involved in and to provide necessary documents to those who are interested in studying further the Arab joint ventures since this study is the first of its kind in dealing with the topic.

CHAPTER TWO

THE NEO-FUNCTIONALIST AND TRANSACTIONALIST APPROACHES TO INTEGRATION

2.1 Introduction

This chapter discusses the theory of international integration in its regional context. It will be divided into four sections and a conclusion. The first section will examine the general definitions of integration in its multidimensional aspects - political, social, institutional and cultural. The focus is to understand how a group of states could be more bound together vis-à-vis the rest of the world. In this section, collective decision-making, the roles of institutions and elite in endorsing integration, and transactions among nations and communities will be analysed.

The second section reviews different theoretical approaches to integration, such as functionalism, neo-functionalism, and the transactional approach. Functionalism is discussed briefly because it is an antecedent of neo-functionalism. However, neo-functionalism and the transactionalist approach are reviewed extensively since they are both employed in the analysis of Arab regional integration throughout the thesis.

The remaining sections discuss the background conditions and the process of integration since they have been highly differentiated by theorists of integration as reviewed in the first section. The background conditions are considered the crucial factors to be examined before the process takes-off, whereas, the process is the development of the course of integration.

2.2 Definition of integration

Scholars of integration are conscious of problems of definition and conceptualisation. There have been major efforts to determine what constitutes integration, how it could be

empirically measured, what end stages are involved, and how to differentiate the process from the conditions of integration.

The study of regional integration is different from other systemic studies of political unification since it stresses the non-coercive effort in international relations. The reason to study regional integration is normative; it is an attempt to create peaceful types of human communities with observation of all processes and organisations that lead to such condition. Ernest Haas, a prominent scholar of integration, contends that the study of regional integration “is concerned with tasks, transactions, perceptions, and learning, not with sovereignty, military capability, and balance of power”.¹

Scholars use an ever-growing number of definitions for integration. It is defined as a process of shifting loyalties from a national setting to a larger entity, the capability to ensure a peaceful change over time, the establishment and maintenance of community, and the collective capacity to make decisions.

Integration, for Karl Deutsch, determines a relationship among interdependent units to produce system properties, which each unit would not have separately. He defines political integration as “the integration of political actors or political units, such as individuals, groups, municipalities, regions, or countries, in regard to their political behaviour. In politics, integration is a relationship in which the behaviour of such political actors, units, or components is modified from what it, otherwise, would be.”² He identifies four “dimensions” of integration; scope, range, domain, and weight. By scope he refers to the different collective aspects of behaviour. The range is the range of rewards and deprivations that maintain the integrated relationship among the components of the system, the domain is the population of the geographic area to be integrated, and the weight is equal to the cohesion that resists the strains and disruptions. These dimensions determine the type of the integrated political community.

Accordingly, Deutsch defines two kinds of political communities: “the amalgamated political community”, in which previously independent political units have formed a single unit with a common government, and “the pluralistic security community”, in which separate governments retain legal independence.³ The United States is an

¹ Ernest Haas, “The Study of Regional Integration: Reflection on the Joy and Anguish of Pre-theorizing” in Leon N. Lindberg and Stuart A. Scheingold, (eds.), *Regional Integration: Theory and Research*, Cambridge, Harvard University Press, 1971, p. 4.

² Karl W. Deutsch, *The Analysis of International Relations*, New Jersey, Prentice-Hall, 1988, p. 212.

³ Ibid., p. 272.

example of amalgamated security community, and France-Germany since the Second World War, and United States-Canada are pluralistic security communities. His analysis of integration is based on his own explanation of the political community, which he defines as:

A collection of political actors whose interdependence is sufficient to make a substantial difference to the outcome of some of each other's relevant decisions. According to the minimal definition, community is simply a relevant degree of interdependence, and hence an objective fact, regardless of whether the governments or populations involved are aware of it or not.⁴

Deutsch, however, is concerned with the relationship between communications and the integration of political communities. People become integrated as they become interdependent whether they intend to be or not.

Deutsch believed that integration can have different objectives for a group of states or political units. It would aim at "maintaining peace, attaining multi-purpose capabilities, accomplishing some specific tasks, and gaining a new self image and role identity."⁵ The stable expectation of peace can be operationally tested by the absence of preparation of war, like deployment of troops, arms expenditure, and in the opinion data on elite and mass populations. GNP and other economic indicators could indicate roughly a change in the capabilities of integrated members. The achievement of common tasks could be measured by examining joint projects and ventures and regional functional institutions. And finally, using common symbols and slogans among population in general and elite in particular could be an indicator for a new role identity.

While Deutsch and others focused on communications and transactions in studying integration, Ernest Haas stressed the role of regional institutions and the perceptions and interests of elite in a pluralistic society. Haas defined integration as

The process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations, and political activities toward a new and larger centre whose

⁴ Ibid., p. 214.

⁵ Ibid., p. 271.

institutions possess or demand jurisdiction over the pre-existing national states.⁶

International institutions maximise the decision-making process and create new voluntary elite and groups that upgrade common interests and diplomatically resolve problems arising among the integrated units. Institutions must have a functional specificity. Effectively, “the task achieved must be both specific and economically important in the sense of containing the potential for spill-over from one vital area of welfare policy into others”.⁷ In achieving a certain specific task pertaining to a vital issue area, regional institutions push governments to grant them more power, so they become more capable of resolving problems originating from the process of integration and interdependence of that specific issue with others.

Regional integration reduces conflicts and promotes cooperation and peaceful relationships among states. It is the tendency towards the creation of a larger political setting, in which each unit consciously eschews the use of force in the relations with other participating units. In fact, the construction of peace and the need to overcome war and prevent another sequence of wars in Europe was the fundamental concern of theorists of integration.⁸

The search for stability and peace is central in the study of regional integration. The argument is that conflicts are reduced and removed as states become more integrated, economically, politically and socially. The European Union in its earliest stage was a typical example.⁹ However, a successful integration brings more than peace. It raises relative military security, economic growth and stability, and it increases the general welfare – education, social overhead capital, etc. It also facilitates exchange and travel with a greater consumer choice for the integrated population. In general, integration gives a sense of importance to the integrated region in the world.¹⁰

⁶ Ernest Haas, “International Integration: The European and Universal Process” in Dale J. Hekius, Charles G. McClintock and Arthur L. Burns, (eds.), *International Stability: Military, Economic, and Political Dimensions*, New York, John Wiley, 1964, p. 230.

⁷ Ibid., p. 237.

⁸ David Mutimer, “Theories of Political Integration” in Hans J. Michelmann and Panayotis Soldatos, (eds.), *European Integration: Theories and Approaches*, London, University Press of America, 1994, p. 13.

⁹ John McCormick, *Understanding the European Union: A Concise Introduction*, New York, St. Martin’s Press, 1999, p. 2.

¹⁰ Leon N. Lindberg, “Political Integration as a Multidimensional Phenomenon Requiring Multivariate Measurement” in Leon N. Lindberg and Stuart A. Scheingold, p. 110.

Fred Hayward defines integration as a phenomenon of “adaptation and orientation of actors to a political structure at a given level of generalisation”.¹¹ Orientation is the identification of political actors to a new structure, while adaptation is the responsive acceptance by relative strata of population of this structure. Donald Puchala conceives the phenomenon of integration as “the merger of territories, governments, polities, economies, societies and cultures.”¹² Consequently, in constructing an abstract model, regional integration can occur in two phases: in the first one, a “supranational government” is formed in which national governments are merged, and in the second phase a “multinational society” comes into being after the merger of different communities. In both cases, larger groupings are created among nations with the absence of the use of violence. Such groupings are analysed at different levels. At one level, the leaders’ expectations and values converge, and they work together to solve common problems without violence and the use of force. At another level, the feelings of amity and confidence among the populations become salient. Sometimes, a grouping is simply defined by a large economic exchange and free circulation of labours, capitals and services (economic union is discussed in chapter three).¹³

Political integration involves the achievement of common objectives by using common resources. The machinery necessitates the implementation of binding public decisions, whether by regional collective institutions or by regular meetings of governmental representatives, but not by formally autonomous national means. Therefore, the creation of new structures, whether real such as international and regional institutions or virtual such as regular meetings and conferences, is necessary. Donald Puchala contends that political integration requires the emergence of collective decision-making processes. These processes are described in terms of different properties; the functional scope of collective decision-making should not be limited to few issue areas. Collective leadership should be more institutionalised and legitimate, and capable of allocating ample resources to push integration further. Throughout the process, demands must be articulated into the collective arena. In general, collective decisions should not be marginal and they must effectively touch a large group of population. They should not

¹¹ Fred M. Hayward, “Continuities and Discontinuities between Studies of National and International Political Integration: Some Implications for Future Research Efforts” in Leon N. Lindberg and Stuart A. Scheingold, p. 323.

¹² Donald Puchala, “International Transactions and Regional Integration” in Leon N. Lindberg and Stuart A. Scheingold, pp. 47-57.

¹³ Leon Lindberg, p. 45.

be ignored; yet, they must have a high probability that they will be complied with. And finally, the consequences of these decisions must be equally distributed among partners of the regional integrated setting.¹⁴

In general, regional integration is concerned with the achievement of a “new deal” in a region that can be studied in “attitudinal” and “institutional” levels.¹⁵ The changing attitudes of elite or public communities in large, whether in favour or against the issue of integration, is salient and it is stressed by integration theorists as an important factor in the accomplishment of regional integration. In a successful integration, regional organizations emerge and they may acquire more power and responsibilities in areas reserved previously to states in which, correspondingly, the decision-making process loses some of its capacity.¹⁶

2.3 Theoretical approaches to integration

Three different approaches to integration are discussed in this chapter: functionalism, neo-functionalism, and the communications or transactionalist approach. Functionalism is discussed briefly as an antecedent of neo-functionalism. It developed mainly after the work of David Mitrany. Neo-functionalism originated after Ernest Haas’ significant revision of functionalism. Neo-functionalism emphasises the functional operation of supranational bodies and how they cause change in loyalty of relevant elite in a community. And finally, the communications or transactionalist approach puts emphasis on the growth of transactions between communities and states as a precondition for integration.

2.3.1 Functionalism

Functionalists are not interested in regional settings. Their focus is more international. They see the world divided into rival communities where violence erupts from jealousy and differences among them. They believe that the creation of an international community is the only solution to build peace, and avoid wars in international

¹⁴ Ibid., p. 46.

¹⁵ Ernest Haas, “The Study of Regional Integration: Reflection on the Joy and Anguish of Pre-theorizing” in Leon N. Lindberg and Stuart A. Scheingold, p. 7.

¹⁶ Paul Taylor, *The Limits of European Integration*, New York, Columbia University Press, 1983, p. 26.

relations.¹⁷ They assume that the nations of the world become more integrated and form an international community only by creating international organisations with specific functional tasks. These organisations will, in time, gain more power and authority and they become superior to member governments.¹⁸

The functionalist approach is essentially non-political. Its fundamental assumption is that economic and social issues are separated from political and security problems. Mitrany contends that

Any political scheme would start a disputation; any working arrangement would raise a hope and make for confidence and patience. The functional way may seem a spiritless solution- and so it is, in the sense that it detaches from the spirit the things, which are of the body. No advantage has accrued to any one when economic and other social activities are wedded to fascist or communist or other political ideologies; their progeny has always been confusion and conflict.¹⁹

The working arrangements,²⁰ based on functional integration of assumed non-political activities such as aviation and health, generate benefits which are of great advantages to the integrating communities. These benefits act as driving forces for pushing integration forward.

Functionalists assume that men are rational enough to shift attention from national problems and solutions to transnational benefits, where cooperation is rewarding all participants. Utilitarianism is a premise in functional thinking, and behaviour is ultimately designed on the basis of maximizing “general welfare interests” among states.²¹

Functionalists view the dynamics of integration in the transnational nature of international problems. They suppose that problems such as pollution, drought, etc...

¹⁷ Reginald J. Harrison, *Europe in Question: Theories of Regional International Integration*, London, George Allen and Unwin, 1974, p. 27.

¹⁸ Karl W. Deutsch, *The Analysis of International Relations*, p. 222.

¹⁹ David Mitrany, *A Working Peace System: An Argument for the Functional Development of International Organization*, London, Oxford University Press, 1943, p. 29.

²⁰ The working arrangements or functional arrangements are used in this chapter to indicate a style of international integration in a sector that is governed and regulated by an international organisation. Examples of working arrangements are the ICAO, the International Civil Aviation Organisation and WHO, the World Health Organisation.

²¹ Reginald J. Harrison, pp. 28-9.

create demands for transnational solutions since they cannot be solved by nations individually. International organisations with activities and functions selected to such issues are considered as supplies for such demands and they offer the necessary solutions.²² Drawing the broad lines of international activities, Mitrany quotes “the essential principle is that activities would be selected specifically and organised separately, each according to its nature, to the conditions under which it has to operate, and to the needs of the moment.”²³ Variation in several functions would be allowed as the needs and conditions that affect the integrated issues change.

National sovereignty is the basic enemy of functionalists since it acts as an obstacle to international integration. To achieve a multi-national social system, which is their essential strategy; functionalists suggest that states should cede part of their sovereignty, after being emptied of its meaning. The argument is based on separating politics from technical issues, since functional arrangements promise better welfare and more services; therefore, political authority should not be of great concern.²⁴

Functionalists assume that international institutions, in satisfying welfare needs, provide an atmosphere for emerging cooperative ethos. Accordingly, citizens benefiting from cooperation learn from their experience to cooperate more. Such a learning process becomes the driving potential for integration, and pushes international institutions to escape from national frontiers. These institutions become sovereign and they attract citizens’ loyalty after convincing them of the rewards of functional cooperation.²⁵

2.3.2 Neo-functionalism

Neo-functionalism is the intellectual descendent of functionalism. It is principally identified with the work of Ernest Haas, after his contribution to the elaboration of new political requisites of integration. Haas rejects Mitrany’s assumption that a clear split could be made between political and functional or technical issues. He clearly declares,

Power and welfare are far from separable. Indeed, commitment to welfare activities arises only within the confines of purely political decisions, which are made largely on the basis of

²² David Mutimer, p. 23.

²³ David Mitrany, p. 35.

²⁴ David Mutimer, p. 25.

²⁵ Paul Taylor, pp. 3-4.

consideration....The distinction between the political and the technical, between the politician and the expert, simply does not hold because issues were made technical by a prior political decision.²⁶

Neo-functional approach is a strategy mainly describing integration among a regional grouping of liberal democratic states with advanced industrialised economies. It assumes the existence of competing interests and perceptions among relevant elite, within both private and public sectors. In addition, this approach stresses the roles of supranational institutions and how they affect the loyalty of elite toward the regional setting. However, the dynamic of the process of integration lies in the “spill-over” mechanism or the expansion of integrative activities.

Neo-functionalism reflects the image of the formation of the European Community. It identifies integration as a process without describing a particular and definite known outcome.²⁷ It is a phenomenological approach that stresses the instrumental motives of actors and mainly elite, taking self-interest for granted. The theory focuses on the primacy of the incremental decision-making process since actors are not able to design long-range strategies with unknown consequences.²⁸ The end product is usually not specifically defined, but it is literally identified to be institutional.²⁹ Haas, for example, considers that integration leads to the formation of a “political community” which is defined as “a condition in which specific groups and individuals show more loyalty to their central political institutions than to any other political authority, in a specific period of time and in a definable geographic space.”³⁰

Neo-functionalists argue that integration of certain vital sectors among sovereign states sets a process in motion. Consequently, organised interest groups rewarded from such integrative activities become involved and push the process further. As much as the involved sectors are vital, the integrative step becomes more expansive affecting other related sectors. Therefore, more demands will be raised to extend the scope of decision-

²⁶ Ernest B. Haas, *Beyond the Nation State: Functionalism and International Organisation*, California, Stanford University Press, 1964, p. 23.

²⁷ David Mutimer, p. 32.

²⁸ Ernest B. Haas, “The Study of Regional Integration: Reflection on the Joy and Anguish of Pretheorising”, p. 23.

²⁹ David Mutimer, p. 31

³⁰ Ernest B. Haas, *The Uniting of Europe: Political, Social and Economical Forces, 1950-1957*, London, Stevens, 1958, p. 5.

making of the regional institutions.³¹ This is known as the “spill-over” effect or the “expansive logic of integration”, using the terminology of Haas himself.

Neo-functionalists assume that central institutions with policy-making powers have a critical role in promoting integration. They introduce the notion of “supranationality”³² in which states “pool” but not transfer sovereignty to extend the authority of regional institutions.³³ The states and supranational institutions co-exist without eliminating each other. Supranationality is considered as the only measure to achieve maximum welfare among states³⁴ since such central institutions can resolve group conflicts and pressures emerging from the process of further integration by providing policy directions to the concerned governments in an institutional framework.

Neo-functionalists perceive social life dominated by competition among groups with different interests. Integration does not take place because it attains a “general welfare” as functionalists argue. However, integration is expected to achieve relative advantages to relevant strata in the integrating societies. Based on that, the leaders of different interest groups play major roles in pushing integration further to achieve maximum interests.³⁵ Haas contends that elite support integration not because of “altruistic” reasons or because of a belief of peace, as functionalists argue, but rather because of “pragmatic” reasons.³⁶ These groups or elite change coalitions and widen their linkages across the regional setting on the basis of perceiving more advantages from integration.

Unlike functionalists who focus on popular attitudes, neo-functionalists consider the changing attitudes of elite as an essential factor in the establishment of a new regional framework. As Paul Taylor asserts, what pushes integration is “the psychology of elite in an integrational process that ideally culminating in the emergence of a new political system”.³⁷

³¹ Reginald J. Harrison, p. 76.

³² Supranational bodies are higher authorities formed by the deliberate delegation of power and rights of individual nations on behalf of a new agency. Supranational bodies act on behalf of the whole union, independently of the member countries. Objectivity is a basic feature of the decision-making process in such agencies.

³³ David Mutimer, p. 31.

³⁴ Walter Mattli, *The Logic of Regional Integration: Europe and Beyond*, New York, Cambridge University Press, 1999, p. 10.

³⁵ Paul Taylor, p. 6.

³⁶ Ernest B. Haas, *The Uniting of Europe: Political, Social and Economical Forces, 1950-1957*, p. 13.

³⁷ Paul Taylor, p. 7.

Decision-making processes are of major concern for neo-functionalists, since they highlight procedural consensus in achieving integration. Haas³⁸ distinguishes three modes of accommodation, and each one reflects a level of or a type of integration between a group of units or states. The first is “the accommodation according to the minimum common denominator”. Bargaining only includes areas where probable agreement is possible. The second mode is that of “splitting the differences”. Different partners address both areas of agreement and disagreement and agree to divide the ground that separates them. And the third mode is the mode of “upgrading the common interest” that is commonly identified in political communities. Bargaining partners agree to focus on what they have in common and postpone the settlement of disagreement. Agreement in the short term will increase the chances of agreement in the long term. This last mode of collective decision-making is confined with the successful process of integration.

The dynamic of integration lies in the process of “spill-over”. This concept is central to the work of Haas. He concludes that spill-over is the product of the mode of accommodation, and it takes the process near the formation of a “political community”. In Haas’ definition, spill-over occurs because “policies made pursuant to an initial task and grant of power can be made real only if the task itself is expanded, as reflected in the compromises among the states interested in the task.”³⁹

Spill-over drives successful integration from issue areas with lesser importance to related areas of much more salience. “The essential dynamic of the process [is] to derive from an increasing preference for solving problems arising in the management of activities, which are immediately adjacent to areas which had been integrated by further integration.”⁴⁰ Spill-over is simply explained by John McCormick as “a phenomenon in which joint action in one area will create new needs, tensions and problems that will increase the pressure to take joint action in another.”⁴¹ As the process proceeds, it becomes more politicised and drives issues of high political importance such as security, sovereignty and foreign policy. Politicians, supported by interest groups sharing similar expectations of the advantages of integration reinforce their

³⁸ Ernest Haas, “International Integration: The European and the Universal Process”, p. 231.

³⁹ Ibid., p. 232.

⁴⁰ Paul Taylor, p. 9.

⁴¹ John McCormick, p.14.

commitments to more integrative decisions with each other in the putative regional setting.

The assumption in spill-over is that problems in one area require solutions involving other areas, because of the interconnection of various elements of political economy in different states in a region. Accordingly, central bodies extend power because of demands for solutions.⁴² Effectively, spill-over necessitates and ensures the growth of central institutions, and leads to the establishment and growth of a political community. Accordingly, Harrison notes “the expectation is that the tasks and powers of the central institutions are increased through the operation of the spill-over process, integration will gradually encroach on that politically sensitive area where vital interests are at stake. So an embryonic political community will emerge and grow.”⁴³ In fact, spill-over mechanism proceeds because elite perceive more advantages in the extension of supranational institutions and not because of “supranational commitment”. Moreover, it becomes more probable as integration involves more salient issues.

Spill-over can be extended to the functional, technical and political spheres. Functionally, it drives integration from one economic issue into another, taking for granted the inseparability of different sectors in economy. Technically, spill-over leads states to raise their standards to the most “strict” partner, that is, the partner with the better accomplishment. And finally, politically it leads to the extension of central institutions’ power, since interaction of functional sectors will create new interest groups that push in the direction of supranationality to achieve their interests.⁴⁴

Neo-functionalism as a theory faces some limitations. In general, it cannot be considered as a universal theory of integration since it evolved more as a technique to study regional integration in pluralistic advanced societies such as Western European societies. Consequently, it does not address accurately the problems of integration in the developing world.

Moreover, another important limitation lies in the fundamental assumption of neo-functionalists concerning the phenomenon of spill-over: Is it an automatic mechanism as perceived by neo-functionalists? Studying the process of integration in Europe after the Second World War, Robert Keohane argues that the spill-over mechanism was not

⁴² David Mitrani, p. 29.

⁴³ Reginald J. Harrison, p. 77.

⁴⁴ John McCormick, p. 15.

habitual. In fact, it derived from an “act of will”⁴⁵ - which is an important observation that should be stressed in studying integration elsewhere and especially in the Arab World - rather than from functional or technical pressures. Moreover, the institutional changes that occurred in the European Union were widely affected by growing economic competition from Japan and the United States. In that respect, Keohane added an external impetus to the understanding of the process of integration by stressing the constructive influence of external factors.

2.3.3 The transactionalist or communications approach

The transactionalist approach is mainly based on the work of Karl Deutsch who considers political integration as the development of a community building, where communicative interactions among peoples act as a crucial factor. Deutsch thinks that transactions can create among people a positive image of the community. He contends that

When these transactions are highly visible, easy to identify and differentiate, people may form images of the community or of the group involved in transactions. If these transactions are rewarded, the image of the community may be strongly positive. Liking this kind of community, people may say: ‘we’ belong together. In their favourable reaction to community, they might then also say; I can also see myself as member of this community: I will call it ‘we’ if I speak of a group.⁴⁶

Transactions are multidimensional: political, social, economic and cultural. Conventionally, as Donald Puchala explains, economic transactions are measured by foreign trade, cultural transactions by educational exchange and social transactions by information exchange through periodicals and newspapers. Also, people mobility is an

⁴⁵ Robert O. Keohane and Stanley Hoffmann, “Institutional Change in Europe in the 1980s” in Robert O. Keohane and Stanley Hoffmann, (eds.), *The New European Community: Decision-making and Institutional Change*, Colombia, Westview Press, 1991, pp 18-25.

⁴⁶ Karl Deutsch, “Communication Theory and Political Integration” in Philip E. Jacob and James V. Toscano, (eds.), *The Integration of Political Communities*, Philadelphia, J.B. Lippin Cott, 1964, p. 54.

index of social transactions. Finally, political transactions are measured by different diplomatic activities.⁴⁷

Deutsch distinguishes between two types of communities: the amalgamated community and the security community. This study focuses more on the security community since it examines integration in the Arab World in which an end stage like a federal state or an economic union did not materialise at the regional level. Deutsch defines the security community as

A group of people who has become integrated. By integration we mean the attainment within a territory of a sense of community and of institutions and practices strong enough and widespread enough to assure, for a long time, dependable expectations of peaceful change among its populations. By sense of community we mean a belief on the part of individuals in a group that they have come to agreement on at least this one point; that common social problems must and can be resolved by processes of peaceful change.⁴⁸

In the process of building a political community, social groups come to learn from their previous interactive behaviour. "Learning, in turn, is driven by this communicative interaction; it is the developing capacity to communicate in the process of integration."⁴⁹ Therefore, social learning is enhanced by the advantages accrued from integration and in turn, it strengthens the community building process.

Transactionalists examine the volume and rate of transactions, not because transnational ties reflect interdependence, but because they act as indicators of people's attitudes toward each other. Mutual transactions derive from mutual responsiveness, in which the attitudes of people and elite are important. Hodges considers that "an increase in mutual transactions can be, therefore, interpreted as the result of a learning process in which the actors involved become accustomed to using new common procedures for the making

⁴⁷ Donald Puchala, p. 129.

⁴⁸ Quoted in David Mutimer, p. 35.

⁴⁹ Ibid., p. 34.

of demands and settling of disputes, and to developing mutual recognition of certain stimuli and symbols within the region”.⁵⁰

Measuring the process of community building in a putative region, transactionalists not only concentrate on the rate and volume of transactions but also on the scope. The more the latter is diversified the more the weight of integration grows. Moreover, it is not enough to observe the emerging “intra-regional” interdependence in social, cultural, economic and political activities, but also great attention should be given to the divergence, whether it increases or decreases, of transactions between the region and the external world.⁵¹

After attempting to review different definitions of integration, and trying to go over important theoretical approaches to integration in the previous sections, it is important to note that studying integration in a region necessitates the examination of two important features: the background conditions that promote or distract integration and the process by which states or entities start and become more bound to each other. Therefore, the coming sections review what is meant by background conditions of integration and how theorists of integration perceive its process.

2.4 Background conditions of integration

Background conditions of integration are conditions that are favourable to integration between states in providing possible motivation or enhancing the achievement of common goals. Karl Deutsch contends that for the formation of pluralistic security communities three conditions are essentials; 1- “compatibility of values” among the decision-makers, 2- “mutual predictability” of behaviour among decision-makers and politically relevant strata of the participating states, and 3- “mutual responsiveness” which means that governments should respond quickly to the actions of communications of other governments in the regional setting.⁵²

Provided that the means of communications are available, the relative volume of transactions in trade, mail, travel, cultural exchange and other transactions, in addition to the joints rewards resulted from communications; all of them form conditions that

⁵⁰ Michael Hodges, “Integration Theory” in Trevor Taylor, (ed.), *Approaches and Theory in International Relations*, New York, Longman, 1978, p. 244.

⁵¹ Ibid., p. 245.

⁵² Karl W. Deutsch, *The Analysis of International Relations*, p. 281.

enhance integration in a prospective larger community.⁵³ Other conditions are necessary to build an amalgamated security community that lead, in one way or another, to a federation. However, as mentioned before, such level of integration is beyond the scope of this study.

Elite and interest groups play a crucial role in the integrative endeavour. They should be willing and capable to set the process in motion, and they must enlarge popular acceptance in expanding the scope of integrated functional tasks.⁵⁴ Regional loyalty must emerge for the process to be maintained.

In defining integration as “an adaptation and orientation of actors to a political structure”, Hayward argues that “the extent of integration or disintegration is dependent on the degree to which individuals adapt to the directives of the political structure, or more precisely to those who act in the name of the structure, and to the extent to which the actors are oriented towards and foster an orientation of the structure.”⁵⁵ The relation between adaptation and orientation determines the level of integration. Accordingly, leadership capable of orienting the process of integration and “attracting” the mass at large to be involved in the process is a critical condition for a successful integration.

For Leon Lindberg, integrative undertaking grows if important indicators exist; such as a higher level of interdependency, a closer level of economic development and acceptable distributive consequences for important actors. However, sometimes, past experiences of gains and losses influence demands for integration.⁵⁶

Studying the initiation of the European Union, Ernest Haas considers that similar social structures dominated by pluralism, a high level of economic and industrial development and ideological homogeneity among parties and elite professing socio-economic interests are crucial background conditions for integration.⁵⁷ He also adds that security and “fear of external groupings of culturally and economically suspect forces”⁵⁸ are as well factors of great importance in determining the level of integration in a putative region.

⁵³ Ibid., p. 271.

⁵⁴ Michael Hodges, p. 243.

⁵⁵ Fred M. Hayward, p. 324.

⁵⁶ Leon N. Lindberg, p. 55 and p. 65.

⁵⁷ Ernest Haas, “International Integration: The European and the Universal Process”, pp. 238-40.

⁵⁸ Ibid., p. 241.

Joseph Nye concludes that a regional integration potential depends on different conditions. First, economic equality or compatibility should exist among states involved but differences in size and wealth are of less importance. Secondly, the elite controlling the economies must hold the same values. Thirdly, interest groups should hold perceptions that integration achieves their interests. And finally, there should be a relative domestic stability in states involved in which decision makers respond to public demands.⁵⁹

In conclusion, the background conditions for initiating and maintaining integration could be divided into three categories: first, structural conditions that reflect the level of interdependence and development, compatibility and equality of economies, in addition to the similarity of social structures in the integrated region. Secondly, leadership; how compatible are the values of elites, their perceptions of joint rewards, their willingness and capability, which highly depend on domestic stability. Finally, mass participation; it depends on the level of involvement of a larger proportion of the populations in the process of integration and their compliance with the new outcomes. At least, they must not show “narrow” nationalistic attitudes nor opposition demands or organisational settings with ideologies and goals attacking the whole process of integration.

2.5 Process of integration

Integration as a political process has a “take-off” point; when it is no longer a prophecy, but it becomes a movement with significant power behind it.⁶⁰ It passes from the theoretical into the practical phase.

Provided that background conditions for integration exist, the process itself can produce certain tensions and contradictions such as “uncertainty” emerging from unequal distribution of benefits, inseparability of issue areas, difficulty in shifting from extra-regional dependence (especially in cases of developing countries) into intra-regional interdependence, and finally differences in performance among states when they start to envy other units that are doing well.⁶¹

⁵⁹ Refer to John McCormick, p. 17.

⁶⁰ Ibid., p. 277.

⁶¹ Philippe C. Schmitter, “A Revised Theory of Regional Integration” in Leon N. Lindberg and Stuart A. Scheingold, pp. 235-6.

The increasing rate and volume of transactions is not enough to determine integration. It may describe it but “transaction flows do not cause regional integration” as neo-functionalists argue.⁶² Other factors must be examined. Central institutions must emerge to channel all political transactions, with standardised common values of cooperation and conflicts resolution. Quantitative and qualitative political transnational ties should expand and contacts across national lines among governmental and societal elite must increase.

During the process of integration, Karl Deutsch⁶³ argues that an important question emerges. Will the stronger and more advanced political unit dominate the system? The answer to this question may determine how integration can be successful in achieving common goals among the participating units.

Stronger and more developed political units can act as an attractive “core area” for the initiation and enlargement of the regional setting. The governments and elite of such units act as the prospective leaders for the new political system.⁶⁴ The existence of a core area is essential in the process of unification. However, in attaining a pluralistic security community what is required during the process of integration is no more than an “unattractiveness and improbability of war among the political units of the emerging pluralistic security community, as perceived by the governments, elite and population.”⁶⁵

2.6 Conclusion

After reviewing different theoretical approaches to integration, it is necessary to explain how they are going to be employed in the coming chapters.

Functionalism is not utilized in this thesis in examining Arab regional integration for many reasons. First, functionalism is more interested in the international than regional settings since it describes integration as an ethical endeavour to achieve peace between states and human beings. However, this thesis focuses on attempts at Arab regional integration and not on international ones. Secondly, functionalism considers that integration is a non-political phenomenon, which is not applicable to regional

⁶² Donald Puchala, p. 158.

⁶³ Karl W. Deutsch, *The Analysis of International Relations*, pp. 281-2.

⁶⁴ Ibid., p. 275.

⁶⁵ Ibid., p. 281.

integrational attempts that occurred in the Arab World since Arab states exist in a highly penetrated and unstable regional system in which high politics, such as security and balance of power, play decisive role. And finally, functionalism regards international institutions as technical devices created to solve transnational problems; however, regional politics played a decisive role in the establishment of the LAS, which acts as a pan-Arab political organisation that highly depends on inter-Arab politics, and its achievements can be more witnessed in regional political affairs such as the Arab boycott of Israel than in technical and economic matters.

Neo-functionalism is employed in this thesis to examine the formation of the LAS and its role in promoting Arab regional integration in chapter four. Moreover, the examination of three Arab joint ventures in chapter nine follows a neo-functionalist analysis since these ventures are considered as regional institutions to promote sectoral integration between the participant Arab states.

Although neo-functionalism is deemed to study regional integration in pluralistic and advanced societies such as those of Western Europe, it is still useful to utilise it in examining Arab regional integration because of the lack of an alternative approach to study the *process* of integration in the Arab World. Accordingly, neo-functionalism will be employed with little modification of its four important features to fit the conditions of Arab states. First, in discussing the formation and the role of supranational bodies during the process of integration, the research will question the role of the LAS in acting as a supranational institution before examining its function in promoting integration at both the political and economic levels. Secondly, in examining the role of the LAS in changing the attitudes of elite, the study will look at the attitudes and interests of Arab political leaders since the attitudes of elite and interest groups in general will not be easily examined, and the reason mainly derives from the general make-up of Arab states in which civil societies are weak and not organised enough. Consequently, elite interests and attitudes could not be appropriately reflected through democratic and transparent channels, such as political parties, labour unions or free media. Thirdly, the research will examine the decision-making process endorsed by the League in formulating and upgrading common interests between Arab states. Finally, in examining the phenomenon of spill-over, the research is deemed to find out if this process has really occurred during the regional integrational bids of Arab states, or more specifically if the studied Arab regional organisations, whether the LAS in chapters four

and five and the reviewed Arab joint ventures in chapter nine have set a process of integration in motion in which integration in one sector spilled over into another one.

Finally, the transactionalist approach is used in this thesis in chapters six, seven and mainly eight, to study regional trade between the states of the Arab Mashreq: Egypt, Syria, Lebanon, Jordan and Iraq. The inter-Arab Mashreq trade was taken as a background condition - an independent variable- in examining different aspects of integration, whether institutional or economic and political to find out its impact on integration between the Arab Mashreq states. Moreover, trade was used as an economic transaction because it is a more reliable and measurable data compared to other transactions used by transactionalists, and because it fits the objective of this study in examining aspects of economic and political integration in the Arab World. And to achieve a higher rate of accuracy, a long period of time starting from 1952 and ending in 1998 was chosen. Finally, the Arab Mashreq area was selected because of its geographic proximity and since it has been the cradle of many Arab integrative attempts. These reasons will be elaborated in chapter six. Furthermore, the impact of politics and regional relations on trade is discussed in chapter seven trying to explain the complicated link between trade and politics in the Arab Mashreq.

CHAPTER THREE

THE STAGES OF ECONOMIC INTEGRATION

3.1 Introduction

After focusing on the political aspects in reviewing regional integration in chapter two, this chapter will examine the general definition and different stages of economic integration. Economic integration is discussed in a separate chapter to provide the reader with a better understanding of the concept. However, this does not mean that integration in actual application could be separated as such, since it is, as defined in chapter two, a multidimensional phenomenon that encompasses political, economic, social and cultural aspects.

This chapter is divided into three sections. The first reviews the general understanding of economic integration or regionalism. It also discusses the incentives and rewards of the integrating units in forming a larger economic setting. The second examines the different stages of economic integration: the free trade area, the customs union, the common market, the monetary union and the economic union. The first three stages will be discussed in more detail since the thesis will come across such terms in studying different attempts at Arab economic integration. The last two stages are briefly reviewed since they did not occur throughout the history of Arab regional integration. Finally, the third section studies the importance of economic integration as a technique to achieve economic development in the developing countries. This section is added to show the salience of economic integration in achieving economic development in the Arab World.

3.2 General definition of economic integration

Economic integration is a western label that developed in the industrialised world. However, like most other western oriented approaches and theories, it could bear many

elements that make it applicable to the study of developing nations, as one scholar argues,

We should, nevertheless, mention the fact that the instruments developed for analytical purposes have the trademark of western industrialised nations and, therefore, the analysis basically depends on and reflects the qualitative and quantitative objectives of the societies in which they have been formulated. Even then, it is still reasonable to use the same terminology and technical tools, which directly originate from the abstractness and neutrality of the technique itself. Such are the basic characteristics of the techniques irrespective of the objectives for which they have been invented and developed.⁶⁶

Economic integration in principle entails the creation of a larger economic setting. National economies become more bound together with respect to the external world by eliminating or reducing barriers separating them and by introducing new aspects of coordination. A new economic structure is generated from the deliberate synchronization of economic policies of the prospective members.

Economic integration is an arrangement among a group of states in which certain barriers to trade are reduced or eliminated, and other forms of coordination and formulation of common policies are introduced to achieve maximum welfare for the integrated area. In this context, Satiroglu contends that “removal of all kinds of national restrictions to trade, to payments and to the movement of factors of production among prospective member nations is traditionally termed as economic integration.”⁶⁷

International economic integration or regionalism is also defined as “the institutional combination of separate national economies into larger economic blocs or communities.”⁶⁸ A new economic bloc, sometimes with new regional institutional settings, emerges affecting not only intra-regional behaviour of its units but also it affects members’ relations with the rest of the world.

⁶⁶ A. Kadir D. Satiroglu, *The Theory of Economic Integration and its Relevance to OIC Member Countries*, Jeddah, Islamic Research and Training Institute, 1986, p. 1.

⁶⁷ Ibid., p. 4.

⁶⁸ Peter Robson, *The Economics of International Integration*, 4th edition, London, Routledge, 1998, p. 1.

Balassa considers that economic integration indicates both a “state of affair” and a “process”.⁶⁹ As a state of affair, economic integration reflects an increased level of interdependence and the non-existence of discriminatory barriers to realize a most favourable effect. However, as a process, it does not only entail the elimination of trade barriers between member countries (negative integration) but also, it involves the harmonisation of policies and, sometimes, the creation of new instruments and institutions for the purpose of enabling the new economic structure to function properly (positive integration).⁷⁰

Economic integration necessitates the introduction of certain measures within the integrated area and other measures vis-à-vis the rest of the world. Therefore, it is debatable whether it is a step for freer trade or for greater protection, since all aspects of economic integration have in common two features: an internal liberalizing effect, which involves the removal or reduction of restrictions to trade and other economic functions in the integrated area, and an external protectionist effect vis-à-vis the rest of the world.⁷¹

Economic integration affects the welfare of the member countries since it is “basically concerned with the promotion of efficiency in resource use on regional basis.”⁷² The member of an integrated arrangement could benefit from the changes in the amount and efficiency of goods produced, the decrease in the level of discrimination between regional and national commodities and the redistribution of income within or between the nations involved.⁷³ Moreover, Robson argues “integration can provide expanded opportunities for countries to engage in inter-industry specialisation within the bloc, in accordance with comparative advantage, thus bringing about a rationalisation of its production.”⁷⁴

Economic integration does not have to be total or embracing all sectors of participating economies at the same time. Sometimes, it is partial and entails only few sectors; it can even be reduced into one sector only. The latter form is usually known as sectoral

⁶⁹ Bela Balassa, *The Theory of Economic Integration*, London, George Allen and Unwin, 1961, p. 1.

⁷⁰ Elias T. Ghanous, *Arab Industrial Integration: A Strategy for Development*, London, Croom Helm, 1982, p. 18. Also refer to Peter Robson, *op. cit.*, p. 2.

⁷¹ *Ibid.*, p. 21.

⁷² Peter Robson, *The Economics of International Integration*, 4th edition, p. 2.

⁷³ Bela Balassa, p. 11.

⁷⁴ Peter Robson, *The Economics of International Integration*, 4th edition, p. 82.

integration.⁷⁵ It starts in one sector then it becomes a gradual process that spills over from one sector to another depending on the success of previous steps, as discussed by neo-functionalists.⁷⁶ This partial form of integration is more practical and preferred by developing countries since it acts as a technique to resolve common problems by joint actions without affecting national integrity. Effectively, partial integration does not reduce or diminish the roles of political leaders and decision-makers in manipulating and controlling the process of integration. Consequently, it is more realisable since it does not threaten elite and decision-makers domestic positions.

The motives for integration are different. The member countries can have both political and economic objectives, and sometimes, they can balance between them. Yet, economic analysis is used to reinforce or reject political incentives behind integration.⁷⁷ In general, the impetus for the process of economic integration could be political. However, economic considerations are more used in assessing the performance of integration.⁷⁸

The motivation for economic integration also depends on states' objectives. The search for stability and peace was the main driving force behind the integration of the European Union after the Second World War; "the argument being that economic, social and political integration can reduce or remove the causes of conflict."⁷⁹ On the other hand, some countries are motivated to harmonise or integrate their national economies to achieve protection against overwhelming countries or blocs, or even against countries in the process of economic integration or unification. These are often the incentives of countries that become excluded from any economic regional arrangements. These incentives are the driving force for integration in most developing nations since they suffer mostly from protectionist measures adopted by larger and developed economic settings such as the NAFTA and EU. These measures act as real barriers against their national exports.⁸⁰ Although steps towards economic integration in this context are reactionary measures, however, they could help in pushing the process further and promoting economic development in these states.

⁷⁵ Bela Balassa, p.15. Also refer to Elias T. Ghantus, p. 19.

⁷⁶ Refer to Chapter Two on neo-functionalism.

⁷⁷ Peter Robson, *The Economics of International Integration*, 4th edition, p. 4.

⁷⁸ Bela Balassa, 1961, p. 7.

⁷⁹ John McCormick, p. 2.

⁸⁰ A. Kadir D. Satioglu, p. 2.

3.3 Different stages of economic integration

Economic integration may take different forms according to the diverse objectives of the participating countries. These forms are also known as stages of economic integration to show the evolutionary aspect of the process. They are many; starting from a free trade area to reach a customs union, a common market, a monetary union, and finally an economic union. Before discussing each form separately, it is important to understand the logical and theoretical development of these stages as discussed by John McCormick.⁸¹

Two or more states create a free trade area by eliminating internal barriers to trade, such as tariffs and borders restrictions, while keeping their own external tariffs against non-member states.

The growth of internal free trade increases the pressure on the member states to agree on a common external tariff; otherwise all goods coming in to the free trade area from abroad will come through those states with the lowest tariffs. Agreement on a common external tariff leads to the creation of a customs union.

The removal of internal trading barriers increases the market for agriculture, industry and services, which now expand their operations to other members of the customs union. This boosts investment in those states, and increases the demand for the reduction or the removal of barriers to the movement of capital and labour, creating a common market (or a single market).

With citizen moving more freely among the member states of the common market, there is growing pressure for coordinated policies on education, training, unemployment benefits, pensions, health care and other services. This increases the demand for coordinated interest rates, stable exchange rates, common policies on inflation, and ultimately a single currency, thereby creating an economic and monetary union.

The demands of economic integration lead to growing political integration as the governments of the member states work ever

⁸¹ Refer to John McCormick, box 1.2: "Stages in the process of regional economic integration", p. 13.

more closely and frequently together. Pressure grows for common policies in almost every other sector, including foreign and defence policy, possibly leading to political union.

El-Agraa considers that each form of integration could be a separate end stage by itself; it is not necessary that each one will lead to another. Suppose that a group of states establish a free trade area, this does not direct their joint efforts to form a customs union, although it might happen. However, each form has its own obligations and benefits to member states. Moreover, it is not compulsory that economic integration should embrace all economic sectors between participating states. El-Agraa contends that each stage could have only a partial or sectoral integration that embraces one or many sectors of the economy.⁸²

3.3.1 The Free Trade Area (FTA)

The free trade area is an economic arrangement that involves two or more countries. It is created by the elimination of existing trade barriers between the participating countries. However, members of such arrangement do not necessarily have common regulations and policies in terms of imports or exports vis-à-vis the rest of the world.⁸³

Accordingly, the main features of the free trade area are the abolition of tariffs between members and the maintenance of their own tariffs against the non-members. However, a trouble may occur if customs duties or trade barriers in general are quite different among member countries. Balassa believes that this difference “will create possibilities for deflection of trade, production and investment.”⁸⁴ Trade deflection is “the reorientation of imports through the country with the lowest tariff for the purpose of exploiting the tariff differential.”⁸⁵

The problem of trade deflection is that by reorienting imports from the lower tariff rate member(s) it acts against the autonomy of some member countries to set their own tariffs. Although the tariffs are still enforced against non-members in the higher tariff-

⁸² Ali M. el-Agraa, *The Theory and Measurement of Economic Integration*, London, Macmillan Press, 1989, p. 2.

⁸³ A. Kadir D. Satioglu, p. 5.

⁸⁴ Bela Balassa, p. 70.

⁸⁵ Peter Robson, *The Economics of International Integration*, 4th edition, p. 28.

rate country, however, they would not be effective as they were before the establishment of the free trade area since most imports could penetrate from the lower tariff member.

Furthermore, the deflection of production - especially in commodities that need foreign-made materials - means the shifting of production to members with lower duties. In this case, Balassa confirms "the ensuing reallocation of resources will have detrimental effects on world efficiency, since the pattern of productive activity will not follow the line of comparative advantage but rather the differences in duties."⁸⁶ The deflection of production will redirect investment and capital inflow towards the lower tariff countries.

Different procedures could be introduced to avoid or limit deflection, especially the deflection of trade.⁸⁷ One method is to apply the rules of origin. These rules indicate that tariffs are only imposed on non-area products or commodities manufactured or imported from non-members, whereas products made in the area circulate freely between members. Another method is to introduce "compensating taxes" to reduce or eliminate any inconvenience that derives from differences in rates of tariffs. The compensating taxes could only be paid when the differences in duties exceed certain limits. These limits should be determined jointly between the members of the free trade area.

In this context, Shibata considers the application of the rules of origins as an inherent factor in creating an FTA. Accordingly, he defines an FTA as,

An international grouping of two or more countries, each of which agrees to exempt from the tariffs and quantitative restrictions which it generally imposes on imported products, that part of those products which have originated or are produced in the territories of the other member of the group. For purposes of customs administration, this means that the participating countries remove tariffs (and quantitative restrictions) on products originating within the free trade area and trading among themselves, though they retain the power to fix their own separate tariffs and other restrictions on imports of products originating outside the area...The point to stress is that in a free trade area, contrary to the implication of the popular definition, intra-area trade is not freely completely from any

⁸⁶ Bela Balassa, p. 71.

⁸⁷ For more detail on trade deflection refer to Bela Balassa, pp. 71-3.

restrictions: a free trade area must be equipped with some measures, like rules of origin, which seek to prevent deflection of trade and allow freedom of intra-area trade only on products originating or deemed to be originating within the territories of the participating countries.⁸⁸

Some forms of modifications within the member countries could be necessary before the foundation of a free trade area. Sometimes, members might temporarily maintain few trade restrictions on imports from other member countries in the area. This is done as a result of previous arrangements and in special situations where certain economies are in a transitional period of structural adjustment, or if they suffer dramatically from removing taxes on certain imports.⁸⁹

3.3.2 The Customs Union (CU)

The customs union is the basic theoretical and practical foundation of economic integration. It is an FTA with a common external trade policy, basically a unified tariff and common quota system, vis-à-vis the rest of the world. However, unlike the FTA, members of the CU are not free to set their own external trade and commercial regulations. The union fixes a common outer policy on imports from non-members.⁹⁰

The distinctive characteristics of a customs union according to Robson are as follows; “[T]he elimination of tariffs on imports from member countries; the adoption of a common external tariff on imports from the rest of the world; and the appointment of customs revenue according to an agreed formula.”⁹¹ Accordingly, a CU is similar to an FTA with common commercial relations that need more harmonisation and coordination between member states.

A CU can act as a single unit in its trade relations if it achieves great progress in regulating trade with the external world. Satiroglu argues that a “customs union can

⁸⁸ H. Shibata, “A Theory of Free Trade Area” in Peter Robson, (ed.), *International Economic Integration*, Harmondsworth, Penguin Books, 1971, p. 68. Robson also considers that the rules of origin are basic features of a free trade area and he believes that these rules limit trade deflection. Refer to Peter Robson, *The Economics of International Integration*, 4th edition, p. 28.

⁸⁹ A. Kadir D. Satiroglu, p. 5.

⁹⁰ Ibid., pp. 5-6.

⁹¹ Peter Robson, *The Economics of International Integration*, 4th edition, p. 17. For more on the definition of a customs union refer to R. C. Hine, *The Political Economy of European Trade: An Introduction to the Trade Policies of the EEC*, Sussex, The Harvester Press Publishing Group, 1985, p. 17. Also refer to Bela Balassa, p. 21.

attain an almost complete integration of its own, and therefore, (its) intra-union trade conditions approximate those prevailing inter-regionally within a single country.”⁹²

The CU has both short run or static effects and long run or dynamic effects.⁹³ The immediate or short run effects are changes manifested in production and consumption. At the production level, there might be dislocation and increase in the levels of production due to elimination of trade barriers and the widening of market. This will affect the pricing level. At the consumption level, consumers benefit from changes in prices due to tariffs reduction or elimination and increase in production.

The static effects of a customs union can affect members and non-members since they cause trade creation and trade diversion.⁹⁴ El-Agraa defines trade creation as “the replacement of expensive domestic production by cheaper imports from a partner.”⁹⁵ It is the shift from a high cost and less efficient producer located outside the union to a low cost and highly efficient producer partner. Robson considers that

Trade creation refers to a union-induced shift from the consumption of higher-cost domestic products in favour of lower-cost products of the partner country. This shift has two aspects: the reduction or elimination of the domestic production of goods that are identical with those produced abroad, the goods instead being imported from the partner country; (and) the increased consumption of partner-country substitutes for domestic goods that formerly satisfied the need at a higher cost.⁹⁶

Trade creation generally causes two effects: a positive production effect and a positive consumption effect.⁹⁷ The positive production effect is due to an increase in the production of the most efficient partner. The higher cost producers would be substituted by the lower cost producers that will increase their production to satisfy new demands resulted from driving out marginal producers. Assuming that the cost of the commodities produced would not increase with the additional amount produced, consumers benefit

⁹² A. Kadir D. Satiroglu, p. 5.

⁹³ Ibid., p. 16.

⁹⁴ For more detail on trade creation and diversion refer to Bela Balassa, pp. 25-9. Also refer to Ali M. el-Agraa, *The Theory and Measurement of Economic Integration*, pp. 49-52.

⁹⁵ Ali M. el-Agraa, *Economic Integration Worldwide*, London, Macmillan Press, 1997, p. 35.

⁹⁶ Peter Robson, *The Economics of International Integration*, 4th edition, p. 19.

⁹⁷ Refer to A. Kadir D. Satiroglu, pp. 17-8

from a decrease in prices of produces that were higher before the establishment of a union.

The positive consumption effect would be an increase in the consumers' surplus due to price reduction after the establishment of the union. This fall of prices as mentioned before is due to the cut in the cost of goods and services by shifting production from higher to lower cost producers. Consequently, consumers' nominal income increases, therefore, with the same income they can purchase more. Their choices become more numerous and the social and individual welfare increase in the union.

By contrast, trade is diverted when cheaper imports from the rest of the world are replaced by more expensive ones from a new partner in the customs union. Robson contends,

Trade diversion refers to a union-induced shift in the source of imports from lower-cost external sources to higher-cost partner sources. This shift can also be regarded as having two aspects: an increase in the cost of goods previously imported from abroad, owing to the shift from foreign to partner sources; (and) a loss of consumers' surplus resulting from the substitution of higher-cost partner goods for lower-cost foreign goods of a different description.⁹⁸

Trade diversion is detrimental to the welfare of the union and the world in general since it shifts production from a high efficient producer to a low efficient one. Satiroglu argues "trade would be diverted to high price producer in the member countries. Such a change in the directional flow of trade from low cost producers to high cost ones - which means an increasing level of inward orientation of the union - and thereby decreasing the member-non-member trade volume is termed as trade diversion."⁹⁹

Trade diversion could be examined by considering its two effects: the negative production effect and the negative consumption effect.¹⁰⁰ The negative production effect occurs when the highly efficient and low cost supplier of certain commodity is excluded from the customs union. There will be a shift from a lower cost/price producer to a higher cost/price producer; as if the customs union is supporting the high cost

⁹⁸ Peter Robson, *The Economics of International Integration*, 4th edition, p. 19.

⁹⁹ A. Kadir D. Satiroglu, 1986, p. 20

¹⁰⁰ Ibid., pp. 19-20.

production and closing its market to the lower cost production. This effect has negative consequences on resource allocation and the flow of trade.

On the other hand, the negative consumption effect means that consumers have to purchase higher cost products available in the protected union market, since the cheaper ones are excluded by introducing the common tariff against the rest of the world. In this case, consumers' incomes could purchase less (in terms of commodities and services) than in the pre-union stage. Also their choices are reduced to the selection provided by the intra-union producers.

Viner¹⁰¹ was the pioneer to challenge the mainstream liberal thinking of the effect of the CU on general welfare - which embraces that a customs union is a step toward universal free trade and it always generates welfare. He concludes that a CU contains elements of both protection and liberalisation and if only combined together their affects on economic welfare could be noticed. Also, he considers that gains and losses cannot be judged *a priori*. He argues that trade creation increases welfare by reducing inefficient production and trade diversion reduces welfare by shifting production to the higher cost producers. In both cases, at least one member of the union and the world at large will benefit or loose. In fact, the union would be beneficial if trade creation outweighs trade diversion and it will be detrimental if the diversion effects were greater.¹⁰²

The dynamic effects of a customs union are more related to the long run achievements of economic development especially in the developing world.

In addition to the reallocation of resources reviewed in examining trade creation and trade diversion, the dynamic effects of a customs union are related to the terms of trade¹⁰³ and the economies of scale¹⁰⁴ after the formation of a union.¹⁰⁵

¹⁰¹ Jacob Viner, "The Economics of Customs Union" in Peter Robson, *International Economic Integration*, pp. 33-5.

¹⁰² Two factors should be examined to find out if a CU is beneficial or not: the changes in the volume of trade and the differences in unit cost. Therefore, production effects of a custom union = Trade created (every item multiplied by the differences in unit costs) – Trade diverted (each item multiplied by differences in unit costs). Refer to Bela Balassa, p. 26.

¹⁰³ The terms of trade, as defined in the Oxford Dictionary of Economics, are "the ratio of an index of a country's export prices to an index of its import prices. The terms of trade are said to improve if this ratio increases, so that each unit of exports pays for more imports, and to deteriorate if the ratio falls, so that each unit of exports buys fewer imports."

¹⁰⁴ The economies of scale are defined as the factors that make the larger firms or countries produce cheaper commodities than the smaller ones.

¹⁰⁵ These effects are examined by orthodox theory which does not take into consideration changes in modern production such as product differentiation, intra-industry trade and imperfect competition. It assumes that there is a competition in goods and factors of production; that factor mobility is within but

When terms of trade are taken in consideration (not considered in Viner's analysis of trade creation and trade diversion) additional gains could be produced by the formation of a CU. If demands for imports from the rest of the world are unchanged, the terms of trade might not change. However, when demands are reduced, then import prices would decrease. If these demands were sufficiently reduced, the terms of trade in favour of the union would improve. The terms of trade are affected by the union common tariff and also by the tariffs imposed on exports to non-member countries. The larger the union area the bigger its bargaining power and the greater its impact on improving the terms of trade on its favour.¹⁰⁶

By introducing the economies of scales, trade creation might not happen by shifting from higher to lower cost suppliers, but it could also occur from lowering the cost of production from the same suppliers.¹⁰⁷

After examining different repercussions resulting from creating a CU, it is worth generalising some conditions for trade-creating unions. These generalisations depend, first, on the size of the integrated economic area; the larger it is, with more members, the more the union may generate a trade creation effect. Secondly, they are related to the common external tariff; the lower it is the more the union is trade creating. Also, some generalisations could be linked to the level of competition in producing very similar products with differences in unit costs; the larger the overlap the more the trade creating effect.¹⁰⁸ However, these statements are no more than generalisations, and to find out whether a customs union is trade creating or diverting depends on the conditions of each case.

Before examining the common market stage of economic integration, some expected economic gains at the levels of both free trade areas and customs unions are listed, as summarised by el-Agraa,¹⁰⁹

At the customs union and free trade area levels, the possible sources of economic gain from economic integration can be attributed to: an enhanced efficiency in production made

not between countries; that there is a zero transport cost; that tariffs are the only trade barriers and they are fixed according to prices of commodities; and finally that resources are completely used and there is a balance of trade. Refer to Peter Robson, *The Economics of International Integration*, 4th edition, p. 18.

¹⁰⁶ Peter Robson, *The Economics of International Integration*, 4th edition, pp. 39-41.

¹⁰⁷ Ibid., p. 44.

¹⁰⁸ Ibid., pp. 26-7.

¹⁰⁹ Ali M. el-Agraa, *Economic Integration Worldwide*, p. 5.

possible by increased specialisation in accordance with the law of comparative advantage due to the liberalised market of the participating nation; increased production levels due to better exploitation of economies of scale made possible by the increased size of the market; an improved international bargaining position made possible by the larger size, leading to better terms of trade (cheaper imports from the outside world and higher prices for exports to them); enforced changes in efficiency brought about by intensified competition between firms; and changes affecting both the amount and quality of the factors of production due to technological advances.

3.3.3 The Common Market (CM)

The common market is a more advanced stage of economic integration. In general, it is a CU with some modifications involving the factors of production. It is an unrestricted market with a common external trade policy. It allows free mobility of factors of production among members or within the whole union. It is assumed that the factors of production, mainly labour, capital and entrepreneurship will move from lower returns regions or countries to places with expected higher returns. A CM provides the maximum efficiency of resources use by mobilising them. Its establishment necessitates the creation of suitable frameworks, politically, economically, socially and even culturally to facilitate the flow of factors of production.¹¹⁰

The effective integration of factors of production necessitates the elimination of all discriminatory barriers against the free mobility of labour, capital and enterprise. This could be done by legislative adjustments and policy harmonisation among regional partners to achieve the most efficient market integration. By comparing a CM to a CU, Robson argues, “a common market, by contrast, involves not only the integration of product markets through the trade liberalisation that results from a customs union, but also the integration of factor markets through the elimination of obstacles to the free movement of factors within the bloc”.¹¹¹

¹¹⁰ A. Kadir D. Satiroglu, p. 6.

¹¹¹ Peter Robson, *The Economics of International Integration*, 4th edition, p. 72.

Balassa considers that “factor movement will reduce quantitative differences in the endowments of qualitatively identical factors and will increase the relative importance of natural resources, transportation facilities, and the pull of markets in their effects on trade.”¹¹² In addition to the classical comparative advantage gains that derive from specialisation, market integration could benefit member countries from increasing their markets’ size. First, a larger market can induce longer production that reduces costs. Secondly, it will enhance more specialisation between firms, thus decreasing the number of products produced by each one and reducing costs. Thirdly, market integration might give rise to higher competition, which provides consumers with more diversified and cheaper commodities.¹¹³ Accordingly, the common market could generate more income and gain for the whole bloc. This derives generally from the reallocation of factors of production within the union.

The movement of labour, capital and entrepreneurial resources are of great importance in achieving efficiency in a CM. The freeing of labour enhances productivity through exchange of skilled and highly experienced individuals. This results in promoting trade since it affects production.¹¹⁴ However, labour movement cannot be efficient if wage earners migrate from countries with lower wage rates and higher social benefits to countries with higher wage rates and lower social services. Therefore, the differences in social benefits and differences in wages resulting from migration should be carefully examined in measuring the efficiency of labour movement.¹¹⁵

Many obstacles could hinder the free movement of capital in the CM. The differences in monetary, fiscal and taxation policies among members would not favour an easy circulation of capital in the integrated market. Besides, the fear of change of these policies added to the fluctuating exchange rates, which are rooted in political and economic instability, would increase uncertainty and reduce the flow of capital in the CM.¹¹⁶ In such conditions and during the formation of a CM in general, there is a great need for concerted actions between members in order to create better environment for

¹¹² Bela Balassa, p. 84.

¹¹³ Peter Robson, *The Economics of International Integration*, 4th edition, pp. 83-4.

¹¹⁴ Bela Balassa, p. 84.

¹¹⁵ Ibid., p. 87

¹¹⁶ Ibid., pp. 94-5.

capital movement since “it’s ultimately unobstructed factor mobility - factor market integration - that creates an integrated economy out of separate economic entities.”¹¹⁷

The need for entrepreneurship becomes more relevant in higher stages of development. There could be different societal and cultural characteristics between integrating countries and this would affect the availability and necessity of entrepreneurs or highly professional people. Their movements satisfy these needs. However, as in the case of capital movement many obstacles increase uncertainty and hinder their movement. The differences in national policies or the fear from a sudden change or even nationalisation could act as major hurdles to the free mobility of entrepreneurship.¹¹⁸

Furthermore, Balassa argues that in the short run the movement of factors of production could be delayed by sociological and psychological effects due to lack of information about the characteristics of the newly integrated market. However, in the long run mobility increases especially with the intervention of state authorities.¹¹⁹

Many problems can result from the creation of a CM. Generally, benefits are not distributed evenly, depending on the relative differences in political and economic influence of member states and their diverse needs and goals. Even if such disparities are resolved, market integration effectively reduces the autonomy of national authorities and decision-makers to impose or regulate their national fiscal and social policies. Sometimes, authority over key issues may shift to supranational institutions that compete with national governments in designing and regulating policies.¹²⁰ Accordingly, in a successful integrational attempt countries try to offset additional gains derived from joining the integrated market with any loss of national sovereignty.

3.3.4 The Monetary Integration

Robson defines two major conditions to achieve monetary integration: “(1) the exchange rates in the integrated area must bear a permanently fixed relationship to each other, although they may jointly vary with respect to other currencies; and (2) there must be full convertibility in the sense that there are no exchange controls on either

¹¹⁷ Peter Robson, *The Economics of International Integration*, 4th edition, p. 5.

¹¹⁸ Bela Balassa, pp. 96-7.

¹¹⁹ Ibid., p. 85.

¹²⁰ Walter Mattli, p. 41.

current or capital transactions within the area.”¹²¹ The free convertibility is essential for trade-related transactions and capital transactions for both the CU and CM, respectively.

Satiroglu argues that monetary integration is a necessary step to achieve higher efficiency in an economic integration arrangement. He contends “economic integration, with the monetary step missing, is not expected to be complete and efficient since, it will still, require conversion of national currencies within the union irrespective of the success recorded in other fields.”¹²²

The monetary union is a step towards currency integration. It may require the approval of a single currency and monetary standards among the member countries. A central bank and other supranational bodies are needed to regulate and control the monetary policy in the new arrangement. Supranational institutions should manage these policies and regulate the exchange rates with external currencies and the balance of payments of the whole integrated area.

El-Agraa argues that three elements are needed to achieve stable monetary integration: a central bank, a common pool of exchange reserves and mainly a harmonisation of monetary policies between member countries.¹²³ The central or regional bank would regulate the exchange rates of the single currency as any national bank adjusting the fluctuations of national currency. The central bank “would allow the rate of the reference currency to fluctuate, or to alter intermittently, relative to the outside reserve currency. For instance, if the foreign exchange reserves in the common pool were running down, the common central bank would allow the reference currency, and with it all partner currencies, to depreciate.”¹²⁴

The actual existence of a common currency is not necessary when the member countries have permanently and irretrievably fixed exchange rates amongst themselves. However, the single currency raises the level of commitment between the members of the union.¹²⁵

In terms of benefits, monetary integration can induce investment by increasing confidence in the integrated area. Accordingly, investors become less suspicious about uncertainty of exchange rates and monetary policies. Besides, monetary integration could increase internal saving by reducing transactions cost deriving from convertibility

¹²¹ Peter Robson, *The Economics of International Integration*, 4th edition, p. 190.

¹²² A. Kadir D. Satiroglu, p. 7.

¹²³ Ali M. el-Agraa, *The Theory and Measurement of Economic Integration*, p. 74.

¹²⁴ Ibid., p. 75.

¹²⁵ Ibid., p. 73.

of currencies before the unionisation. Moreover, the integration of financial markets brings lenders and borrowers together and lessens regulatory and intermediary procedures. Consequently, this will increase the efficiency of the financial market by reducing uncertainty and lack of information.¹²⁶

The establishment of a monetary union, like any other economic deal, is related to cost/benefit calculations. In terms of costs, it is clear that the union would increase constraints on national governments and reduce their autonomy in regulating and designing their fiscal policies, which makes them less effective in maintaining growth and stability. Therefore, members have always to balance between expected benefits and costs if they are to join such an advanced economic scheme.

3.3.5 The Economic Union

An economic union between a group of integrating states comes into being after achieving all necessary requirements discussed in previous stages, such as a common external trade policy, an integrated market with free movement of factors of production, common economic and social policies, and integrated fiscal policy with a unified currency. Essentially, regional supranational institutions are created to regulate all these policies on behalf of the whole union.

Theoretically, a political union can follow an economic union. "Supranational authority would also be equipped with extra political and even military power in accordance with the advancement in political front. The process of evolution, running from the establishment of a free trade area to total economic integration, would logically be expected to terminate with a new independent political-federal state like the United States."¹²⁷ Member countries would no more behave as independent states on the international stage; they will be parts of a larger political setting, which is recognised as a single country vis-à-vis the rest of the world. No more international trade would exist in the union, but this becomes part of intra-regional trade relations between the different regions or federal state, depending on what would be the political form of the new union.

¹²⁶ Peter Robson, *The Economics of International Integration*, 4th edition, pp. 194-5.

¹²⁷ A. Kadir D. Satiroglu, p. 8

3.4 Economic integration and economic development in the developing countries

Economic integration in the developing countries is not only reduced to a tariff issue as in the case of developed states. It might have different consequences in the long run. These consequences are defined as the dynamic effects of integration.

The dynamic effects of integration are more desirable since they are cumulative and they push further the production frontier, whereas the static effects are realised in the short run from benefits of changes in prices with a fixed production frontier.¹²⁸

Ghantus argues that economic integration can be a strategy for economic development for the developing countries. He contends

It is amply evident from theory and application that economic integration in the context of developing countries exhibits growth-reinforcing effect and could act to reduce the cost of economic development in the integrating countries. As such it is usually considered as a strategy or paradigm for economic development, rather than a tariff issue as it has been basically treated in the context of developed countries.¹²⁹

Regional economic integration helps the developing countries to overcome limitations on growth and development that derive mainly from smallness of their markets, and it increases their bargaining position vis-à-vis the rest of the world.¹³⁰ In the long run, integration might promote economic development by increasing the size of market and changing the patterns of production and competition. Production is highly affected by the market size, which could be measured roughly by population, GNP and income distribution. When different economies integrate, large-scale production would be more feasible, since the larger market created absorbs and induces production.¹³¹ Moreover, the enlargement of the market necessitates free competition to achieve efficiency in productivity. Satiroglu, in this respect confirms that

Enlarged market size is a necessary condition for internal economies to be realised. An accompanying-sufficient-condition must be, *inter alia*, the competition among the firms involved.

¹²⁸ Elias T. Ghantus, p. 23.

¹²⁹ Ibid., p. 17.

¹³⁰ Ibid., p. 31.

¹³¹ A. Kadir D. Satiroglu, p. 31.

An economic integration not only enlarges the market size but also ideally eliminates almost all barriers against the entry of foreign commodities and opens up competition among the firms within the union. All pertinent business activities are forced to increase their efficiency consistently to stay alive. This, in turn, fully restructures the national monopolistic and/or oligopolistic markets of the pre-union period. That is to say, market structure inefficiency will effectively be eliminated by the induced competition at a regional level.¹³²

Regional economic integration could promote economic development by inducing investment in the developing countries. Investment is a function of savings. Integration may accumulate capitals in different ways: first, it increases internal savings, secondly, it accumulates savings in foreign exchanges and finally, it enhances foreign capital inflow.¹³³

The increase in internal savings is due to expected decrease in prices following integration. This brings a nominal increase in consumers' income. Following integration, prices decrease due to changes in the patterns of production - by introducing economies of scales and by internal competition. Moreover, if the terms of trade are in favour of the union the prices of imported goods will decrease.

Secondly, economic integration also helps developing countries to accumulate or save foreign exchanges. After unionisation member countries are able to produce some of their lacking capital goods that are crucial for economic development. Therefore, they can save foreign exchanges and, consequently, they will import other capital goods that are not produced in the area.

Thirdly, integration could increase the inflow of foreign capital not only by creating a larger market but also by forming a protected one. The new market will attract foreign direct investments. Moreover, local investors that used to invest outside the integrated region could divert their capitals to profit from integration. Foreign capital inflow is essential for the take-off point of development in the developing countries since the resources are limited.

¹³² Ibid., p. 33. For more on the effects of economies of scales and competition, refer to R. F. Mikesell, "The Theory of Common Markets and Developing Countries" in Peter Robson, *International Economic Integration*, pp. 166-193.

¹³³ A. Kadir D. Satiroglu, pp. 34-5.

To go over the main points of the long run effects of integration McKinney concludes that,

The dynamic effects of integration arise from changes in the economic environment, which increase the economic growth rate of a country. They include economies of large-scale production, the more efficient investment pattern brought about by lower risk in trade with other member countries, and the improved market structure and production efficiency brought about by heightened competition with other member countries.

These effects are almost impossible to measure.¹³⁴

The success of economic integration is significantly related to the level of development and economic size of the developing countries. The process is not always beneficial to all participating countries. Instead, sometimes it is detrimental. Therefore, integration generates different effects: the spread effects and the backwash effects.¹³⁵ The spread effects are those that reduce income inequalities between the relatively more developed countries and the less developed ones. These effects occur due to increasing demands in the developed areas to use products from the less developed, and the transfer of more advanced technologies from the former to the latter. On the other hand, the backwash effects are those that intensify disparities in economic development. The more developed countries or centres act as magnets to attract capitals and skills from the less developed ones. These effects reduce the factor endowments of the latter.

The bigger the difference between the levels of development of the integrating countries, the more disadvantages from integration the less developed partners will face. First, their industries become no more protected against imports from more developed partners. Besides, even if the cost structures were similar, most economic activities would be concentrated in the more developed areas. These areas eventually benefit from the economies of scale and externalities.

¹³⁴ Joseph McKinney, "Lessons from The Western European Experience for North American Integration" in Stephen J. Randall, Herman Konrad and Sheldon Silverman, (eds.), *North America Without Borders? Integrating Canada, the United State and Mexico*, Alberta, University of Calgary Press, 1992, p. 34.

¹³⁵ Refer to Gunnar Myrdal, *Economic Theory and Under-Developed Regions*, London, Gerald Duckworth & co., 1957, pp. 27-34. Also for more on the spread and backwash effects refer to Elias T. Ghanus, p. 31-2.

Secondly, countries with lower level of development suffer from decrease in tariff revenues, and they would not be able to balance this loss with an increase in taxation, due to their poorer level of development.

Furthermore, if the level of economic development is quite similar but the size of economies and resources are different, the benefits from integration may not be evenly distributed between the integrating countries. This occurs mainly when the specialisation scheme does not provide a balanced income distribution from integration. Sometimes, industrialisation is concentrated in one country and agricultural activities are located in another one. This could effectively lead to uneven income distribution especially if industrialisation generates by far better profits.

It seems that integration succeeds mostly in countries where the levels of economic development and economic size are similar. However, this is not sufficient. Harmonisation of production and investment is more than necessary for an integration setting to succeed. In addition, from the outset a practical distribution of cost/benefit scheme must be set and commonly agreed by all partners.¹³⁶

3.5 Conclusion

In this chapter, the theory of economic integration was studied from a political economy perspective since it will be tested qualitatively and not quantitatively on regional integration in the Arab World.

The coming chapters will bear a wider and qualitative understanding of economic integration without going into detail of trade creation and trade diversion. Moreover, some economic stages such as the monetary and the economic unions are not discussed since they have never been materialised at the regional level in the Arab World. However, the examination of the theory of economic integration necessitates the revision of the whole concept and whatever will be left over does not deny the importance and relevance of the theory, but it reflects more the focus of the study and the level of economic integration that was reached by Arab states at the regional level.

The different stages of economic integration were examined to standardise the Arab regional economic attempts. These attempts varied from establishing an FTA to a CM.

¹³⁶ Elias T. Ghantus, p. 33.

The examination of these stages and their characteristics provides the reader with a better understanding of the concept and therefore a deeper judgment. For example, Arab states, under the auspices of the LAS, attempted to establish an Arab Common Market (ACM). However, the ACM was no more than a free trade area and it barely reached a CU level in some commodities. Without defining each stage, the reader would not understand the differences, and consequently, will not recognize how far Arab states have gone in achieving economic integration, or fulfilling their regional economic and political plans.

Furthermore, this chapter explained the incentives of the integrating countries in realising any scheme of economic integration in order to understand Arab attempts for integration not only from an ideological perspective, but also from an economic and interest-oriented point of view. Therefore, it would be easier to examine economic conditions that facilitated or hindered Arab economic integration.

Finally, the last section on the importance of economic integration in achieving economic development for developing countries was discussed to provide guidance for any future attempt to Arab economic integration in order to take into consideration the conditions reviewed in the coming chapters since, as chapters four and five imply, Arab economic integration was not attempted to achieve economic development, and for these reasons such attempts did not achieve any progress in pushing further the course of Arab economic development.

CHAPTER FOUR

THE LEAGUE OF ARAB STATES: ORIGIN AND STRUCTURE

4.1 Introduction

This chapter examines the League of Arab States using a neo-functionalist approach before studying its wider role in enhancing Arab regional integration at both political and economic levels in chapter five. It will be divided into four sections. The first section focuses on the historical establishment of the League and it discusses two major factors that were behind its formation: the British initiative launched in early 1940s and the political interests of the Arab founding leaders. This section aims at proving that the creation of the League was more a reaction to the political and regional circumstances that existed during the period of its formation than an institutional outcome to regulate and manage a well defined regional project of Arab integration.

The second section reviews the purposes and functions of the League with reference to its Charter. The third section summarizes different organizational and institutional resolutions in order to reveal a complete organizational structure of the League. The League's structure discussed in this section goes beyond what is provided for by its Charter, however, it gives a clearer picture of its executive and managerial structure that will be needed in the next section.

The fourth section analyses the performance of the League according to a neo-functionalist perspective. It examines its institutional operation based on four different questions addressed by neo-functionalists: supranationality, changing elite's attitudes, collective decision-making processes and spill-over mechanism.

4.2 Historical perspective and early formation of the League of Arab States

The LAS was declared formally established on 22 March, 1945, when the then independent Arab countries signed its constituent instrument, the Charter. The

formation of the League came nearly six months ahead of the setting up of the United Nations.

There were two major factors behind the foundation of the LAS: first, the Arab nationalist sentiment that was rising during the mandate period, and secondly, the British initiative taken during the Second World War pledging the support for the establishment of a larger independent Arab state.¹³⁷

Arab hopes to achieve liberty and unity could be traced back to the late nineteenth century where many efforts, some of which were clandestine, were organised to achieve independence from the Ottoman domination.¹³⁸ In fact, at the beginning of the Second World War, Arab popular inclination was in favour of pan-Arab intergovernmental arrangements, as one commentator noted,

Inter-Arab cooperation and coordination of policies and actions, already enjoying the whole-hearted support of the peoples and intellectuals dedicated to the idea of Arab unity, were persuasively suggesting themselves to Arab officialdom as well during the first half of the Second World War, even though the idea of actual political unification may have had as yet no corresponding appeal in official quarters.¹³⁹

The British initiative came out as an exigency of the Second World War. When the war reached its climax, Britain tried to gain Arab sympathy. Therefore, a first declaration to satisfy Arab hopes was issued on 29 May, 1941, by Anthony Eden, the then British Foreign Secretary. He stated, "it seems to me both natural and right that the cultural and economic ties between the Arab countries, and the political ties too, should be strengthened. His Majesty's government for their part will give their full support to any scheme that commands general approval."¹⁴⁰ Eden himself in the House of Commons reiterated another declaration in this context on 24 February, 1943. He confirmed that "the British government would view with sympathy any movement among the Arab

¹³⁷ Istvan Pogany, *The Arab League and Peacekeeping in Lebanon*, Sydney, Avebury, 1987, p. 1.

¹³⁸ Abdelmagid Farid, "Factors Behind the Foundation of the League of Arab States" in Information Directorate of the League of Arab States, *The Golden Jubilee of the League of Arab States: Looking to the Future*, Cairo, League of Arab States, 1995, pp. 22-3. Also refer to Hussein A. Hassouna, *The League of Arab States and Regional Disputes: A Study of Middle East Conflicts*, New York, Oceana Publications, 1975, p. 3.

¹³⁹ Fayez Sayegh, *Arab Unity: Hope and Fulfilment*, New York, Devin-Adair Company, 1958, p. 115.

¹⁴⁰ Istvan Pogany, p. 2. Also refer to Robert W. Macdonald, *The League of Arab States: A Study in the Dynamics of Regional Organization*, New Jersey, Princeton University Press, 1965, pp. 33-4.

States to promote economic, cultural or political unity, but clearly the initiative in any scheme would have to come from the Arabs themselves. So far as I am aware no such scheme which commands general approval has yet been worked out.”¹⁴¹

Arab leaders considered the British enthusiasm a golden opportunity to strengthen domestic support by embracing Arab nationalistic propaganda and fulfilling the hopes of their peoples. However, they understood and responded differently to the British call.

Three scenarios to strengthen ties between Arab countries came about in response to the British initiative.¹⁴² Nuri As-Said, Prime Minister of Iraq, proposed during the spring of 1943 a plan calling for the establishment of a federation encompassing Syria, Lebanon, Transjordan and Palestine. Then, an “Arab League” would be formed by the new Syrian State and Iraq. All other Arab states would have the right to join the League later on. As-Said advocated the formation of a League Council representing member states and dealing with issues such as defence, foreign affairs, currency control, communication, customs, education and the protection of minorities’ rights. In Palestine, Jewish inhabitants would be given autonomy under a special regime, as well as the Christian Maronites of Lebanon. “It is doubtful whether Nuri meant any more by his term Arab League than a political confederation of Arab states that would eventually become a sovereign political entity.”¹⁴³ The Iraqi Prime Minister believed that the Arab League should focus more on the Fertile Crescent without giving attention to incorporating Egypt or North Africa in general in the new political setting. His regional scheme was only designed to widen his rule in the Arab Mashreq and it was perceived more practical than creating a larger Arab political setting encompassing other regions and states that were still under colonial mandates.

Emir Abdullah of Transjordan advocated another plan in April 1943 to extend the Hashemites’ rule over the whole Greater Syria i.e., encompassing Lebanon, Palestine, Transjordan and Syria. First, Abdullah proposed the formation of the “Syrian State” that he should preside over, and then, he suggested the formation of a federation between Iraq and this state with other Arab states.¹⁴⁴ Similarly, Abdullah’s plan was another scenario competing with As-Said’s scenario to extend the jurisdiction of his newly

¹⁴¹ Abdelmagid Farid, p. 34. Also refer to Hussein A. Hassouna, p. 4.

¹⁴² To know more about the proposed scenarios of Arab unity following the British initiative refer to Robert W. Macdonald, pp. 34-41. Also refer to Istvan Pogany, pp. 2-3.

¹⁴³ Robert W. Macdonald., p. 35.

¹⁴⁴ Ibid., pp. 35-6.

promised state of Transjordan. Abdullah and As-Said were cleverly manipulating Arab aspirations and British political exigency to fulfil their political interests in widening their rule and gaining more prestige and support at both the regional and the domestic level.

The most influential response, however, to the British initiative came from Nahas Basha, the Prime Minister of Egypt, and this reflected the regional balance of power in the Arab World then when Egypt was playing a leading role in dominating the Arab political stage.

Nahas Basha summoned the leaders of independent Arab states to discuss a programme of "Arab unification".¹⁴⁵ The delegates of Arab states expressed different views. The Syrian delegation believed that political unity was practical and could be achieved among Arabs. However, their proposed Arab model for unity excluded North Africa and Sudan, but included the whole Arab Mashreq and the Gulf. They showed eagerness to participate in a greater Arab framework as one scholar noted, "they expressed then readiness to give Nahas *Carte blanche* to suggest forms of unity which they would implement without hesitation."¹⁴⁶ Ibn Saud, King of Saudi Arabia, was ready to participate and send his delegate to convene with Nahas Basha only when he was convinced that the consequences and outcomes of any conference related to Arab unity would not embarrass Britain; that the Arab status quo would not change, and neither the Hashemites nor Egypt monarchs could acquire an overwhelming power in the region to incorporate Syria, Palestine and Lebanon to Egypt or Iraq.¹⁴⁷ Gomaa confirmed that the British intervention made the participation of Ibn Saud possible.¹⁴⁸ The Lebanese delegation insisted on full independence and the recognition of their existing borders, and with these conditions satisfied they were ready to take steps for closer cooperation with Arab neighbours.¹⁴⁹ In one way or another they shared the Saudi view of maintaining the status quo.

¹⁴⁵ Istvan Pogany, p. 2.

¹⁴⁶ Yehoshua Porath, *In Search of Arab Unity, 1930-1945*, London, Frank Cass and Company, 1986, p. 262.

¹⁴⁷ *Ibid.*, p. 272.

¹⁴⁸ Ahmad M. Gomaa, *The Foundation of the League of Arab States: Wartime Diplomacy and Inter-Arab Politics 1941-1945*, London, Longman, 1977, p. 172. Also refer to Chapter Six of the book (the Arab Unity Consultations: July 1943 to February 1944).

¹⁴⁹ *Ibid.*, p. 183.

The Yemen adopted the position of Ibn Saud and it participated in consultations after it was assured that such meetings would only advocate the formation of a loose federation at most.¹⁵⁰

The serious consultations were done between Nuri As-Said and Nahas Basha. The former wanted to move fast considering that any scheme of Arab unity would strengthen the Arab position after the war, especially on questions related to Palestine. Also, As-Said understood Nahas's intention to increase his popular prestige and strengthen his internal position vis-à-vis the Palace in Cairo. Therefore, he tried to convince Nahas Basha to adopt his proposal and establish a greater Syrian state, since any form of Arab unification will be viewed as a real victory for Nahas Basha by the Egyptian masses.¹⁵¹ However, Nahas Basha did not prefer any scheme of political unification leaving that to the discussions of the Preparatory Committee of the General Arab Congress that comprised all Arab leaders or their representatives involved in the consultations. Letting these issues to be debated in the Committee, Nahas believed that he could acquire a central role in Arab regional politics as the leader of the largest Arab country in terms of population, prestige, cultural development and economic wealth.¹⁵²

Moreover, Nahas Basha tried to balance his interests at both the regional and the domestic levels; he wanted the Preparatory Committee to convene and end up with an accepted framework of Arab unity to show the Egyptian constituency his devotion to Arab issues. Consequently, this could widen his popular support at a time when he was in a serious conflict with the Palace. To achieve this goal he would appease all Arab delegates' demands so he can accommodate the most commonly acceptable outcome. At the same time, Nahas was not in favour of any wider political unification for two reasons: if this unification included all Arab lands, it would upset the British and their allies, the Free French, especially when including Arab North Africa. Secondly, if this unification scheme would encompass only the Fertile Crescent region, that is Syria, Palestine, Lebanon, Transjordan and Iraq, the newly established state would be a regional rival that diminishes the international attention given to Egypt as the most influential regional player in the Arab World then.

¹⁵⁰ Yehoshua Porath, p. 261.

¹⁵¹ Ahmad M. Gomaa, p. 160.

¹⁵² Ibid., p. 161-2.

The consultations lasted more than six months and involved only the representatives of Arab independent states then. Although Nahas pushed harder at the Committee to convene with delegates from North Africa, the British refused, since any participation of Morocco, Tunisia and Algeria would antagonise the Free French government, their ally.¹⁵³

Finally, the Preparatory Committee convened in Alexandria on 25 September, 1944 after being invited by Nahas Basha. Representatives of all independent Arab states attended.¹⁵⁴ In addition, Musa Al Alami a moderate Palestinian participated as an observer representing the Arabs of Palestine.¹⁵⁵

The major controversial issue of the conference was to reach an appropriate and accepted Arab regional setting. The discussions focused more on how to establish a framework of cooperation instead of achieving political unity since “there was little support amongst the delegates at the Preparatory Committee for the formation of a political union in which sovereign powers would be exercised by an executive body. Instead, there was a general agreement on the need to establish a loose, regional organisation making few concessions to supranationality.”¹⁵⁶

The conference ended on 7 October, 1944 by adopting the “Alexandria Protocol.” This Protocol enunciated the formation of the LAS. It stipulates that “a League will be formed of the independent Arab States which consent to join the League. It will have a council which will be known as the Council of the League of Arab States, in which all participating states will be represented on an equal footing.”¹⁵⁷ Consequently, the Protocol no longer discussed the issue of Arab unity or any type of federation; however, it launched the establishment of a loose Arab regional organisation. Hassouna confirmed that “the form of unity upon which consensus could be reached was in the nature of a loose confederation that would not affect the newly acquired sovereignty and independence of many Arab states and at the same time would satisfy the local and dynastic interests.”¹⁵⁸

¹⁵³ Ibid., p. 189.

¹⁵⁴ The Preparatory Committee was attended by the Prime Ministers of Egypt, Syria, Lebanon, Iraq, and Transjordan. Imam Yehya of Yemen dispatched an observer and Saudi delegates attended only in the third session.

¹⁵⁵ Yehoshua Porath, p. 277.

¹⁵⁶ Istvan Pogany, p. 3.

¹⁵⁷ For more on the Alexandria Protocol, refer to Robert W. Macdonald, Appendix A, p. 315.

¹⁵⁸ Hussein A. Hassouna, p. 7.

Eventually, the British initiative materialized by the adoption of the least debatable scenario; the LAS was formed without precluding the struggle for power among its creators. However, this was only possible by recognising the sovereignty and integrity of each Arab state. In this respect, Vatikiotis summarised the formation of the League as follows:

The exigencies and requirements of wartime policy prompted Britain to encourage greater Arab political cooperation and cohesiveness. In the face of military dangers in 1941-2, the British government encouraged and inspired Hashemite-sponsored schemes of Fertile Crescent and Greater Syria unity. For instance, Abdullah's Greater Syria plan (Syria, Transjordan, and Palestine) and Nuri's Fertile Crescent Union (Iraq, Syria, and Transjordan) were opposed by both Egypt and Saudi Arabia since they would have meant the domination of an important Arab area by their rivals, the Hashemites. Eventually, Britain supported the less contentious scheme of a League of Arab States, which was also preferred by Egypt and Arabia. In recognising the sovereignty and independence of the member states, the League allowed for the containment of the struggle for power among the Arab states. But it also recognised the major protagonists for Arab leadership at the time as being Egypt, Iraq and Saudi Arabia.¹⁵⁹

Examining the preparatory period that preceded the formation of the LAS, mainly the consultations of the signatories, it was certain that the motives behind the establishment of the League were not driven by a realistic programme of regional functional integration. While neo-functionalists¹⁶⁰ believed that a peaceful change is necessary in the delegation of power to supranational institutions to make the latter promote the process of integration and achieve benefits to all participants, Arab leaders stressed the independence and sovereignty of their governments in any framework of cooperation, and they were strongly opposed to any modest delegation of power to the regional setting discussed. By delegating power to regional institutions they believed they could

¹⁵⁹ P. J. Vatikiotis, *Arab and Regional Politics in the Middle East*, London, Croom Helm, 1984, pp. 81-2.

¹⁶⁰ Refer to Chapter Two of this thesis.

lose much of their regime and personal power and influence. Therefore, the newly established League was entirely dependent on its members. As Sayegh observed,

Not only did the League have no power of its own; it had no derivative, delegated power either. There was no delegation of authority from the states to the League. The league was a forum for discussion, consultation and deliberation: the decisions were to be made by the representatives of the member-states, in their capacity as such. Power and authority in their entirety were retained by the states.¹⁶¹

The trend in the beginning was neither to discuss social or economic reforms from a regional perspective, nor to establish a functional regional organisation with a specified agenda of integration. Arab leaders were more worried about their regimes' security and states' integrity (the high politics issues in their agendas¹⁶²) and they were sceptical about any arrangement that could endanger their political positions; they were ready to cooperate in economic and technical issues only if the latter were separated from high politics issues such as security and integrity.

In sum, the Alexandria Protocol put an end to a period of unstable and unresolved regional political problems. Finally, the postcolonial borders were institutionalized, the Arab political order, which was created by colonial powers, was eventually legitimized by Arab leaders, and the League of Arab States' formation was loaded by such legacy. Its creation reflected the least conflictual scenario viewed by Arab leaders of the most demanded belief dreamed by Arab intelligentsia. However, the League did not come into being because of popular demands but it materialised as a result of the manifestation of Arab political leaders' interests who exploited such demands in searching for legitimacy and popularity at a time when they were viewed by Arab masses as extension of colonial rules.

¹⁶¹ Faye Sayegh, p. 123.

¹⁶² For more detail on the differentiation between high politics and low politics, refer to Paul R. Viotti, Mark V. Kauppi, *International Relations Theory: Realism, Pluralism, Globalism*, 2nd edition, New York, Macmillan Publishing Company, 1993, p. 7.

4.3 Purposes and functions of the League

The League of Arab States came formally into existence on 22 March, 1945 after the ratification of the Charter by its seven founding member states: Egypt, Iraq, Saudi Arabia, Syria, Lebanon, Transjordan and Yemen. In addition to the founding members, the League is now comprised of the following member states whose admission occurred on the indicated dates: Libya, March 28, 1953; Sudan, January 19, 1956; Tunisia and Morocco, October 1, 1958; Kuwait; July 20, 1961; Algeria, August 16, 1962; Qatar and Bahrain, September 11, 1971; Oman, September 29, 1971, United Arab Emirates, December 6, 1971; Mauritania, November 26, 1973; Somalia, February 14, 1974; Palestine, September 9, 1976, Djibouti, September 4, 1977, Comoros, November 20, 1993.¹⁶³

The League, as envisaged in the provisions of the Charter, defined two major aims. First, it stressed the independence and sovereignty of each member state, and secondly, it called for cooperation and coordination between Arab states to achieve the common good for all Arab countries. The purposes of the League were clearly set in Article 2 of the Charter that stipulates:

The League has as its purpose the strengthening of the relations between the member-states, the coordination of their policies in order to achieve the co-operation between them and to safeguard their independence and sovereignty; and a general concern with the affairs and interests of the Arab countries. It has also as its purpose the close co-operation of the member-states; with due regards to the organization and circumstances of each state, on the following matters:

A. Economic and financial affairs, including commercial relations, customs, currency, and questions of agriculture and industry.

B. Communications, this includes railroads, roads, aviation, navigation, telegraphs and posts.

¹⁶³ Information Directorate of the League of Arab States, *The League of Arab States: Basic Information*, (a publication issued in the Golden Jubilee of the League of Arab League), Cairo, League of Arab States, 1995, p. 11.

C. Cultural affairs.

D. Nationality, passports, visas, execution of judgments, extradition of criminals.

E. Social affairs.

F. Health affairs.¹⁶⁴

The objectives of the League were further endorsed fifty years later by its Secretary-General Dr. A. Ismat Abdul-Maguid in 1995 when he wrote,

The League, nevertheless, made it one of its highest priorities to solidify and consolidate relations between all Arab countries and expressed every keenness on developing such relations on the basis of respect of their independence and sovereignty. Another prioritized objective of the League was the channeling of efforts in the direction of serving the common interests of all Arab countries, thereby furthering their common good, safeguarding their future and contributing to the realization of their hopes and aspirations.¹⁶⁵

The purposes of the League reflected the hopes and dreams of Arab leaders to achieve independence after a long period of external domination. Therefore, the issue of sovereignty was stressed rather than the question of unity. Moreover, during the period of establishment of the League some founding members were still under a *de jure* mandate. However, the question of Arabism endorsed by Arab masses also shaped the formation of the League. As a result, the League was a hybrid or a compromise between materialised aspiration of independence and idealistic dream of pan-Arab identification.

In the economic, social and cultural fields the League established many functional agencies to manage Arab cooperation in different sectors, such as the Arab Labour Organization, the Arab League Educational, Cultural and Scientific Organization and the Arab Agricultural Development Organisation, and many other specialised agencies that were aimed at inducing sector integration. Moreover some other financing institutions such as the Arab Monetary Fund, the Arab Fund for Economic and Social

¹⁶⁴ Refer to Article 2 of the Charter of the League in appendix A of this thesis.

¹⁶⁵ Refer to Information Directorate of the League of Arab States, *The League of Arab States: Basic Information*, a foreword written by Ismat Abdul-Maguid, p. 1.

Development and the Arab Institution for Investment Guarantees were created to facilitate investment and offer financing assistance to member states.

The realisation of Arab economic integration was attempted through different plans of Arab joint actions. "It was within this framework that the Arab Economic Unity Council was established by twelve of the League member-states in 1964. The aims of this Council include, inter alia, the initiation of efforts to achieve an Arab Common Market on the basis of ensuring the freedom of movement and transit of individuals, capital and goods, as well as the freedom of job-taking and purchase of property."¹⁶⁶

The League was to enhance non-political activities, and accordingly, statements stressing the coordination of foreign policy between Arab states, as stated in the Alexandria Protocol, were intentionally dropped during the drafting of the League's Charter.

4.4 Organisational structure

The LAS is composed of five bodies: the Council of the League, the Economic and Social Council, the Specialized Ministerial Councils, the Secretariat-General, the Standing Technical Committees and the Summits of Heads of States. Moreover, a large number of specialized agencies works in close cooperation with the League.

4.4.1 The Council of the League

The Council of the League is the supreme organ of the League, made up of representatives of all member states, each one entitled with a single vote. Article 3 of the Charter stipulates that "the League shall possess a Council composed of the representatives of the member states of the League; each state shall have a single vote, irrespective of the number of its representatives."¹⁶⁷

The tasks entrusted to the Council of the League are "the realisation of the objectives of the League and to supervise the execution of agreements which the member states have

¹⁶⁶ Ibid., p. 15.

¹⁶⁷ The representatives are usually at the level of Foreign Ministers.

concluded....” Moreover, the Council is to determine “the means by which the League is to cooperate with the international bodies.”¹⁶⁸

The Council of the League is the directing branch of the League; however, it is not an autonomous authority that can formulate policies and set its own agenda since it is only empowered by states’ representatives. This structural weakness makes the League far behind a supranational body, and it renders its role marginal in enhancing plans of political and economic integration, especially in times of crises between Arab states.

The Council of the League convenes twice a year in ordinary sessions and can hold extraordinary sessions upon “the request of two member states of the League whenever the need rises.”¹⁶⁹ It assists the work of the Standing Committees and “decides on application for membership and accepting withdrawal from the League, as well as, on the introduction of amendment to the Charter.”¹⁷⁰

4.4.2 The Economic and Social Council

The Economic and Social Council replaced the Economic Council in 1977 that was established in 1950 by the Treaty for Joint Defence and Economic Cooperation. It is formed by the Arab ministers of foreign affairs and the appropriate ministers of the social and economic affairs.¹⁷¹ The Council is entrusted to look for “the realisation of the objectives of the League in the economic and social domains as well as the achievement of other goals of relevance as may be contained in the text of either the Charter or the Treaty.”¹⁷²

4.4.3 The Specialised Ministerial Councils

The Specialized Ministerial Councils formulate common policies and regulate common projects between Arab states. They are made up of Arab ministers and they deal with a large spectrum of technical issues.

¹⁶⁸ Refer to Article 3 of the Charter of the League in appendix A of this thesis.

¹⁶⁹ Refer to Article 11 of the Charter of the League.

¹⁷⁰ Refer to Information Directorate of the League of Arab States, *The League of Arab States: Basic Information*, p. 17.

¹⁷¹ Review Resolution 3552 on March 29, 1977 in Information Directorate of the League of Arab States, *The Charter of the League of Arab States and its Main Regulations*, in Arabic, Cairo, League of Arab States, 1995, p. 39.

¹⁷² Information Directorate of the League of Arab States, *The League of Arab States: Basic Information*, p. 19.

Twelve Councils have been set up so far:¹⁷³

1. The Council of Arab Information Ministers
2. The Council of Arab Interior Ministers
3. The Council of Arab Justice Ministers
4. The Council of Arab Housing Ministers and Construction
5. The Council of Arab Transport Ministers
6. The Council of Arab Social Affairs Ministers
7. The Council of Arab Youth and Sports Ministers
8. The Council of Arab Health Ministers
9. The Council of Arab Environmental Affairs Ministers
10. The Council of Arab Telecom Ministers
11. The Council of Arab Tourism Ministers
12. The Council of Arab Energy and Electricity Ministers.

The Councils represent a step forward in achieving progress in the functional cooperation between Arab states. However, they suffer from the same predicament that obstructed the functioning of the Council of the League since they lacked operational autonomy and their policies were often dictated by states' representatives.

4.4.4 The Secretariat-General

It acts as an executive organ implementing resolutions adopted by the Council of the League and the Specialized Ministerial Councils. The Secretariat-General coordinates the activities of the specialised agencies and other institutions operating within the framework of the Arab joint actions. It is made up of the following different departments:

1. General Department of Bureau of the Secretary-General
2. General Department for International Affairs
3. General Department for Arab Affairs

¹⁷³ Refer to the website of the League of Arab States www.leagueofarabstates.org

4. General Department for Palestine Affairs
5. General Department for Information Affairs
6. General Department for Economic Affairs
7. General Department for Social Affairs
8. General Department for Legal Affairs
9. General Department for Military Affairs
10. General Department for Administrative and Financial Affairs
11. Internal Audit
12. Institutional Development Unit
13. Documentation and Information Centre
14. Principal Bureau for Boycott of Israel, Damascus
15. Arab League Centre, Tunisia
16. Arab Centre for Legal and Judicial Research, Beirut.¹⁷⁴

The Secretariat-General consists of a Secretary-General, Assistant Secretaries, and an “appropriate number of officials.”¹⁷⁵

The Secretary General is the senior official in charge of coordinating the activities and functions of the different bodies of the League. He/she shall attend the meetings of the Council of the League and those of the Committees, and shall perform such other duties as may be entrusted to him by these bodies.¹⁷⁶ He/she is appointed by a two-third majority vote of the Council of the League for five years, subject to renewal. The Secretary General has the right to appoint the Assistant Secretaries with the approval of the Council of the League.¹⁷⁷ In fact, one of the major tasks assigned to the Secretary General is the preparation of the budget draft before the beginning of each fiscal year to be approved by the Council of the League.¹⁷⁸

¹⁷⁴ Ibid.,

¹⁷⁵ Refer to Article 12 of the Charter of the League.

¹⁷⁶ Refer to Article 12 of the “Internal Statute of the Council of the League of Arab States” in Information Directorate of the League of Arab States, *The Charter of the League of Arab States and its Main Regulations*, p. 70.

¹⁷⁷ Refer to Article 12 of the Charter of the League.

¹⁷⁸ Refer to Article 13 of the Charter of the League.

The Secretary-General should be a distinguished Arab personality to be appointed by the League. In fact, being Egyptian could increase his/her credibility. As one scholar observed, “the Arab League seemed to be an organisation dominated by the major member, namely Egypt. The secretariat-general, the centre of gravity of the League, was, by and large, run by Egyptians. The staffs were largely citizens of Egypt, and the most important job, that of the Secretary-General, has been held by an Egyptian.”¹⁷⁹ Moreover, Hamid argued “the League became more Arab after the suspension of Egypt’s membership in 1978 since it recruited more managers from different Arab nationalities”.¹⁸⁰ Historically, the post of the Secretary-General was held by the following Arab personalities: Mr. Abdul-Rahman Azzam 1945-1952, Mr. Abdul-Khaleq Hassouna 1952-1972, Mr. Mahmoud Riyad 1972-1979, Mr. Chedli Klibi 1979-1990, Dr. Ahmed Ismat Abdul-Maguid 1991-2001, and the current Secretary-General is Amr Moussa, a former Egyptian foreign minister. Only Klibi was not an Egyptian. He was appointed after Egypt's membership was suspended in the Baghdad Summit of Arab leaders in 1978 following its ratification of the Camp David Accord with Israel.

4.4.5 The Technical Committees

Different Technical Committees were set up to achieve cooperation in the diverse political, social and technical issues listed in Article 2 of the Charter. All member states must be represented in each Committee and they “shall be charged with the task of laying down the principle and extent of cooperation.”¹⁸¹

With widening the scope of Arab cooperation, these Committees were replaced by the Ministerial Councils and some other agencies in order to manage Arab integration in the different sectors involved. “Some of the standing technical committees have, however, continued to function regularly since their assignments were tied to the tasks of the Council of the League. These include the committees of financial and administrative, information and legal affairs.”¹⁸²

¹⁷⁹ Tawfig Y. Hasou, *The Struggle for the Arab World: Egypt's Nasser and the Arab League*, London, KPI, 1985, p. 19.

¹⁸⁰ Interview with Mr. Ali Muhsen Hamid, Head of the London Mission of the League of Arab States, London, 17 May, 2001.

¹⁸¹ Refer to Article 4 of the Charter of the League.

¹⁸² Information Directorate of the League of Arab States, *The League of Arab States: Basic Information*, p. 23.

In addition to these Committees, some administrative and judicial bodies were created by the Council of the League, such as the Administrative Court “to examine and deliver verdicts on administrative cases filed by the General-Secretariat staff members”; the Investment Arbitration Board “to monitor conflicts that occur between member states implementing the Unified Agreement on Arab Capital Investments”; and the Higher Auditing Board, made up of representatives of seven member states, elected every three years and empowered with administrative and financial examination tasks.¹⁸³ However, all these bodies have not materialised yet.

4.4.6 The Summits of the Heads of Arab states

These Summits do not form a structural organ that was initially provided for by the Charter of the League. They are sets of conferences held by the leaders of Arab states when necessities arise. However, the extraordinary Arab summit held in Cairo on 21 and 22 October, 2000 endorsed the regular convention of the Council of the League at the summit level, that is at head of states level, in March every year. Resolutions adopted by the summit conferences cover Arab affairs that are worthy of being topics for consultations and guidelines for the League. Moreover, these resolutions form the outline of the tasks of the Council of the League.¹⁸⁴

In addition to the mentioned structural bodies, the League created seventeen specialized agencies to manage Arab joint actions in different sectors. These agencies are the following: the Arab Administrative Organisation, 1961, Cairo; The Arab League Educational, Cultural, Scientific Organisation (ALECSO), 1964, Tunis City; the Council of Arab Economic Unity, 1964, Cairo; the Arab Labour Organisation (ALO), 1965, Cairo; the Organization of Arab Petroleum-Producing Countries, 1968, Kuwait City; the Arab Agricultural Development Organisation (AADO), 1970, Khartoum; the Arab Industrial Development and Mineralogy Organisation (AIDMO), 1978, Rabat; the Arab Establishment for Investment Guarantees, 1970, Kuwait City; the Arab Fund for Economic and Social Development, 1968, Kuwait City; the Arab Monetary Fund, 1975, Abu Dhabi; the Arab Bank for Economic Development in Africa (ABEDA), 1973, Khartoum; the Arab Board for Agricultural Investments and Development, 1971, Khartoum; the Arab Atomic Energy Board, 1988, Tunis city; the Arab Satellite

¹⁸³ Ibid., pp. 23-4.

¹⁸⁴ Ibid., p. 16.

Communications Organisation (ARABSAT), 1976, Riyadh; the Arab Centre for Dry Regions and Arid Land Studies, 1968, Damascus; the Arab Broadcasting Stations Union (ABSU), 1955, Tunis city; the Arab Science and Technology Academy (ASTA), 1975, Alexandria.¹⁸⁵

These functional organisations were not established according to the provision of the Charter; however, they represented the diversification of the League's activities.

Despite its complex structure, the LAS remains an undersized organisation in which no more than 400 personnel are employed compared to the European Community that employs around 20,000. It is "quite a challenge for those who propose the EU as a model for future Arab institutional integration."¹⁸⁶

4.5 The League of Arab States and neo-functionalism

Before examining the League of Arab States as the sole regional organisation embracing all Arab states through neo-functionalist lenses, it is important to recognise the shortcomings that may derive from the application of neo-functionalism to developing states including the Arab countries, since this approach emerged in democratic states with advanced industrialised economies. Haas, himself, stated, "the intensity of integration is positively correlated with industrialisation and economic diversification",¹⁸⁷ and Hodges confirmed that "the neo-functionalists stress not the development of common values, but rather the pluralist nature of modern society, composed of competing elite and conflicting interests."¹⁸⁸

As mentioned in chapter two, although neo-functionalism evolved in studying regional integration in pluralistic and advanced communities such as the Western European societies, it will be utilised in examining Arab regional integration because of the lack of an alternative approach to study the *process* of integration in the Arab World. However, neo-functionalism will be employed with some modification of its four important features to fit the conditions of Arab states. First, in discussing the formation and the role of supranational bodies during the process of integration, the research will

¹⁸⁵ Ibid., pp. 25-6.

¹⁸⁶ Michael Hudson, "Arab Integration: an Overview" in Michael Hudson, (ed.), *Middle East Dilemma: The Politics and Economics of Arab Integration*, London, I.B. Tauris Publishers, 1999, p. 11.

¹⁸⁷ Ernest Haas, "International Integration: The European and the Universal Process", p. 251.

¹⁸⁸ Michael Hodges, p. 245.

check whether the LAS acted essentially as a supranational institution in promoting integration at both the political and economic levels. Secondly, in examining the role of the League in changing the attitudes of elite, the study will focus more on the attitudes of Arab political leaders, since the attitudes of elite and interest groups in general are not easily examined referring to the characteristics and the make-up of Arab states in which civil societies are weak and not organised enough. Therefore, elite's interests and attitudes could not be appropriately manifested through democratic and transparent channels, such as political parties, labour unions or free media. Thirdly, in examining the decision-making process of the League, the focus will be on its role in formulating and upgrading common interests between Arab states. Finally, in examining the phenomenon of spill-over, the research is dedicated to find out if this process has really occurred during the regional integrational bids of Arab states, or more specifically if the LAS evolved or set a process of integration in motion in which integration in one sector spilled over into another one.

In sum, neo-functionalists may raise four main questions in addressing the role of the League. First, is the League a supranational institution, or was its evolution proceeding towards supranationality? Secondly, did the League change the loyalty of elite towards its own regional setting? Thirdly, did the League play a role in promoting a collective decision-making process between Arab states that is considered as a central issue in studying the process of integration by neo-functionalists? And finally, did the League evolve by a spillover mechanism?

4.5.1 Supranationality

The LAS did not acquire throughout its history any aspect of supranationality. It was, and still is, a framework of coordination. The Arab states' representatives in the Council of the League formulate its policies. The League did not have any independent body that set its strategy and plans of action and called upon the member states to comply with. In fact, Clovis Maqsd considered the League a framework of Arab joint actions and not a regional institution, "for a framework signifies the rallying of action without

actual organisation, whereas, institutionalisation signifies its control and the states compliance with the institution's rules and regulations."¹⁸⁹

Supranationality involves an "autonomous range of powers" whether transferred to a person or an institution or a body of experts.¹⁹⁰ This pooling of states' authorities did not happen during the formation of the League since it was considered as a threat to Arab leaders and their regimes, and it could weaken their power. The Arab leaders were not in a position to sacrifice internal stability mainly based on the rentier aspect of their states and the artificial legitimacy of their rule¹⁹¹ to achieve integration or to discuss the best mechanism to achieve it. In terms of priority, "regime survival was nearly at the top of the list."¹⁹² They established a regional arrangement to protect their independence and sovereignty, which they struggled for, and they were not able to delegate power to the League, which could become an instrument in the hand of the strongest power.¹⁹³ Barnett wrote,

The mandate system and colonialism created the territorial boundaries of these states, and the anti-colonial tide in these countries largely demanded immediate independence and sovereignty rather than rewriting the borders that were a gift of the West. Having worked so hard for their independence, Arab governments were hardly excited about turning over their newly won sovereignty to a larger entity in which they would have reduced political power. From such considerations came the Arab League in 1945 that made generous references to their

¹⁸⁹ Quoted in Raghid el-Solh, "The Functional and Organisational Renewal of the League of Arab States" in Information Directorate of the League of Arab States, *The Golden Jubilee of the League of Arab States: Looking to the Future*, p. 83.

¹⁹⁰ Ernest Haas, "International Integration: the European and the Universal Process", p. 232.

¹⁹¹ Bahgat Korany, Paul Noble and Rex Brynen argued "greater political stability, however, generally did not imply greater legitimacy. Indeed, to the extent that repression and neo-patrimonialism were essential to the maintenance of power and political order, they tended to inhibit the development of a lasting legitimacy based on institutions, performance and popular participation". Refer to Bahgat Korany, Paul Noble and Rex Brynen, "The Changing Regional Security Environment" in Bahgat Korany, Paul Noble and Rex Brynen, (eds.), *The Many Faces of National Security in the Arab World*, London, Macmillan Press, 1993, p. 284.

¹⁹² Michael Barnett, *Dialogues in Arab Politics: Negotiations in Regional Order*, New York, Columbia University Press, 1998, p. 35.

¹⁹³ Nasser's manipulation of the League was discussed by Tawfig Y. Hasou, pp. 162-169.

sovereign basis of authority and the sanctity of their territorial confines.¹⁹⁴

The reality that the League lacked any aspect of supranationality affected its performance and its role as a regional organisation that might further the process of integration in the Arab World. Moreover, the League did not have any direct authority over the citizens of its member states, and consequently, it could not shape the social and political dynamics of Arab societies. The Secretary General of the League, Dr Ismat Abdul Maguid, reiterated in many occasions that the Charter did not grant it any supranational character. This was a major obstacle that prevented the League from achieving a greater role in Arab politics in general and in regional integration in particular.¹⁹⁵

4.5.2 Changing elite's attitudes

The second question addressed by neo-functionalists examines the role of the League in changing elite's attitudes and loyalties towards the new regional setting.

To reiterate, Haas defines integration as "the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations, and political activities towards a new and larger centre whose institutions possess or demand jurisdiction over the pre-existing national states."¹⁹⁶

Before discussing the role of the League in shifting elite's loyalties, it is better to understand the issue of the "larger centre" addressed by Haas. Is the LAS a larger centre that had binding authorities or demanded jurisdiction over the pre-existing national states? Absolutely, the League could not become a core attracting elite's loyalties since it lacked every aspect of supranationality. Besides, the Arab elite, mainly considered political leaders, were more occupied in instituting personal and regimes' loyalties, which could provide greater legitimacy to their rule, than in endorsing a wider regional loyalty.

¹⁹⁴ Michael Barnett, p. 31.

¹⁹⁵ Refer to Ahmad Ismat Abdul Maguid, "The League of Arab States and Recent Issues", *Arab Affairs*, in Arabic, No. 73, March 1993, p. 9. Also refer to Talaat Hamed Assayed, "The League of Arab states and the Future of the Arab World", *Arab Affairs*, in Arabic, No. 92, December 1997, p. 15. Talaat Hamed Assayed was the Vice-President of the Secretary General Office.

¹⁹⁶ Ernest Haas, "International Integration: The European and the Universal Process", p. 230.

Moreover, referring to the League's early formation period or the consultations phase, Arab leaders, especially Nahas Basha of Egypt, Nuri As-Said of Iraq and Emir Abdullah of Transjordan, were mainly concerned with establishing an Arab regional framework to consolidate their political position internally and externally. Internally, by looking for a practical framework to "reunify" the Arabs, they may appear more dedicated to the Arab cause in the eyes of their masses and this would strengthen their domestic stand. And externally, they were eager that any regional outcome would not upset the British who essentially were behind the initiative of establishing such a regional framework. In addition, leaders of other Arab states were searching to maximise or protect their interests in the process of creating the League. Therefore, from its earliest formation, the League's identity was shaped by the interests and agendas of influential Arab leaders, and it was not the League that was acting to shape or change the loyalties of Arab leaders. Moreover, this idea was highly reinforced during Nasser's rule which exploited the League to implement a Nasserite regional order on neighbouring Arab states.

On the other hand, it was argued that the LAS did not attempt to influence the loyalties of Arab elite since it was the sole regional organisation encompassing only Arab states. Therefore, it did not find itself obliged to define an Arab regional loyalty or identity since it was founded on ideological pan-Arab rhetoric. Hilal affirms in this context,

The League of Arab States is not only a regional organisation but also a nationalist organisation. The relationships between the Arab countries represent not only a regional order but also a pan-Arab regional order. The introduction of the elements of Arab nationalism into any analysis of the role of the Arab League is the essential starting point. Otherwise, it is impossible to understand many aspects of the dynamics of the Arab League since its establishment in 1945.¹⁹⁷

The weakness of the League as an Arab regional setting unable to attract elite's loyalties lied in its incompetence in materialising Arab loyalty into a practical project of Arab unity or Arab integration. In the absence of any realistic arrangement, the identification of Arab unity acted as the most disguised and confusing institution that could not influence instrumentally Arab elite's attitudes. Tibi confirms

¹⁹⁷ Ali al-Deen Hilal, "The Arab League as a Regional Organization: The Political Dimensions", *Arab Affairs*, Vol 1, No. 1, Summer 1986, p. 120.

I share Salame's view that the Arab League has failed to achieve anything worth mentioning with regard to Arab integration because it pays lip service to the utopian idea of the pan-Arab state while simultaneously doing everything to prevent it. Even in terms of modest integration goals, such as cooperation frameworks, the Arab League has achieved little. In an environment in which the political culture necessary for practising democracy is lacking, the rhetorical call for unanimity replaces actual political bargaining on the grounds of mutual acceptance of sovereignty. Salame refers to the 4,000 resolutions adopted by the Arab League since its creation: 80 per cent of them, though adopted by unanimous votes, were never applied."¹⁹⁸

However, he also considered that terms such as Arab integration and Arab unity were "blurred" concepts manipulated by Arab leaders and politicians.¹⁹⁹ Arab unity had not materialised as a policy issue that necessitated institutional support, but just rhetoric and an ideological appeal. Comparing integration in the Arab World with similar process in Europe, Tibi wrote

The Arabs have been talking for decades about integration in terms of pan-Arab unity without progressing towards this rhetorically proclaimed end. In contrast, integration in Europe was a policy issue, not pan-ideological rhetoric. Inherent in this policy has been the consistent honouring of the existing nation-states in Europe. Institutionally supported respect for national differences on all levels, and thus for plurality, has been the hallmark of the EU.²⁰⁰

In fact, the legacy of the past and the many failing attempts to establish different forms of unity in the Arab World, whether by the will of actors or against it, such as the formation of the United Arab Republic in 1958 and its disintegration in 1961, or the Iraqi occupation of Kuwait in 1990 and the consequent Second Gulf war; all these

¹⁹⁸ Bassam Tibi, "From Pan-Arabism to the Community of Sovereign Arab States: Redefining the Arab and Arabism in the Aftermath of the Second Gulf War" in Michael Hudson, p. 98.

¹⁹⁹ Ibid., p. 95.

²⁰⁰ Ibid., p. 97.

events weakened the idea of Arab unity and strengthened the fact that the existing nation-state is there to stay; in the meantime the League was a paralysed eyewitness. Consequently, Noble confirmed,

Unity efforts came to be viewed in many countries as highly threatening to a broad range of state, regime and societal interests. In short, in the context of ongoing process of consolidation of the postcolonial state system, the idea of Arab unity came to acquire strong negative associations even among elite who originally supported the idea.²⁰¹

4.5.3 Collective decision-making process

In terms of collective-decision making, neo-functionalists “concentrate on the development of processes of collective decision-making, and the way in which governmental and non-governmental elite change their tactics and organisation as the decision-making process shifts from the national to supranational level.”²⁰² Moreover, they consider integration as a process in which “a group of actors decide to collaborate at the international level in order to further their individual and collective interest in the performance of some technical relatively non-controversial function.”²⁰³ Therefore, at the centre of the collective decision-making process comes the issue of the “collective interest”.

The LAS had a limited achievement in formulating Arab collective interests for two main reasons. The first is linked to its decision-making procedure, and the second is more related to the general endowments of Arab societies.

The decision-making process in the League is based on unanimity. Article 7 of the Charter stipulates that “unanimous decisions of the Council shall be binding upon all member-states of the League; majority decisions shall be binding only upon those states which have accepted them”. This mode of decision-making can never enhance integration, since it gives every member state, even a very small one such as Djibouti, a veto power that can impede any resolution aiming at more cooperation and coordination,

²⁰¹ Paul Noble, “The Prospects for Arab Cooperation in a Changing Regional and Global System” in Michael Hudson, p. 73.

²⁰² Michael Hodges, p. 245.

²⁰³ Ibid., p. 246.

and this veto power is justified by the right of every member state to claim its protection, its integrity and its sovereignty.

Moreover, this mode of decision-making was different from the one advocated by neo-functionalists who call for “the accommodation on the basis of a minimum common denominator” then “accommodation by splitting the differences” and finally “accommodation on the basis of deliberately or inadvertently upgrading the common interest of the parties.”²⁰⁴ These modes of decision-making were not considered by the League since the latter lacked an autonomous body with a certain range of power that could act as “an institutionalized mediator”²⁰⁵ and upgrade the common interest, as Haas argued. Undoubtedly, as Tibi confirmed, “the Arab League simply does not have the institutions and related mechanisms of collective policymaking required for regional conflict resolution. In comparison with the European Union (EU), the Arab state system also lacks the necessary institutional efficacy.”²⁰⁶

The issue of “common interest” is more complicated. In the absence of pluralism, and in the lack of an autonomous regional institutional arrangement, it is hard to determine the common interest since Haas believes that in the absence of pluralism, voluntary groups cannot work out their differences, and consequently their common interests cannot be identified.²⁰⁷ Clearly, in the Arab World, the interests of states are the interests of regimes, and the interests of regimes are the interests of their leaders. Moreover, when Arab leaders joined the League, they did not attempt to define and upgrade the “Arab common interest”, however, they were more willing to get additional legitimacy to their rule by casting a profile of Arabism. They considered Arabism a common interest. However, Barnett argues “Arab states and societies have been involved in a continuous negotiation about the desired regional order, the norms of Arabism, and the Arab state identity.”²⁰⁸ The norms of Arabism are still undefined and they remain rhetoric which cannot be considered common interests. Therefore, the League has a modest achievement in setting up a collective decision-making process in which the common

²⁰⁴ Ernest Haas, “International Integration: The European and the Universal Process”, p. 231.

²⁰⁵ Ibid., p. 232.

²⁰⁶ Bassam Tibi, p. 93.

²⁰⁷ Ernest Haas, “The Study of Regional Integration: Reflection on the Joy and Anguish of Pretheorising”, pp. 14-5. Moreover, Karl Deutsch considers that the “acceptance of pluralism” is an effective method to achieve integration. Refer to Karl Deutsch, *The Analysis of International Relations*, p. 279.

²⁰⁸ Michael Barnett, p. 6.

interest is still ambiguous since it is not based on material benefits felt and practised by the Arab masses and societies.

4.5.4 Spill-over mechanism

The fourth question addressed by neo-functionalists deals with the process of evolution of the League. How the League evolved as a regional organisation, and did the phenomenon of “spillover” really occur during the League’s evolution. The spillover effect reflects “policies made pursuant to an initial task and grant of power can be made real only if the task itself is expanded, as reflected in the compromises among the states interested in the task.”²⁰⁹ Moreover, the spillover effect can be divided into two components according to neo-functionalists: the “functional spillover”, which is the expansion of economic tasks from one sector to another because of their inseparability, and the “political spillover”, in which corporate bodies and interest groups that are affected by the integration process try to influence national governments to pursue their interests.²¹⁰ In fact, as this study will reveal in the coming chapters, the initiation of economic integration in a sense of inducing real changes in Arab economies was absent. Moreover, at the political level, interest groups were not involved in the process of Arab integration. In contrast, integration process was mainly controlled by leaders and states’ representatives. Consequently, the League did not evolve by a spillover mechanism and no single amendment was made to its Charter throughout its history. Although different specialised agencies were established and tackled many technical issues; however, their emergence was not a response to “socio-economic demands emanating from an industrial-urban environment.”²¹¹ They were expressive attempts at integration manifested in institutional frameworks since they were not related to the level of economic development of Arab states. For example, the Arab Economic Unity Council that was established in 1957 only launched its activities in 1964 through the establishment of the Arab Common Market. The latter, however, could not encompass more than four states: Egypt, Jordan, Iraq and Syria. This Council, granted with little power, endorsed economic unity among member states without making any reference to the level of their economic development and did not specify any feasible strategy that

²⁰⁹ Ernest Haas, “International Integration: The European and the Universal Process”, p. 232.

²¹⁰ John McCormick, p. 15.

²¹¹ Ernest Haas, “International Integration: The European and the Universal Process”, p. 240.

should be applied to enhance integration.²¹² Economic unity consequently had never proceeded between its member states.

4.6 Conclusion

In conclusion, the League of Arab States did not have an acceptable performance when analysed by the neo-functionalists. The reasons were mainly because of its structural weakness that stressed sovereignty and independence, and also, because of power limitation in which the League could not address strategies or plans independently of states' will.

Judging Arab sentiments existing today, the League is more blamed than acclaimed because of its limited achievements in Arab affairs. Moreover, the League could not create a "community" of its own or a distinct Arab crowd of supporters, since first, it was unclear in designing its aims, and secondly, it did not have any direct authority over Arab citizens. In most cases, the League reflected inter-Arab relations, and could not induce any change at the regional level. This condition did not conform to the concept of a regional organisation that was allegedly created to promote integration and induce peaceful change in the regional relations of its members. Hilal considers that

The function of the regional organisation as a force for change is not limited to expressing the existing reality, but it has to try to develop the regional framework and create new elements of integration. Thus there is a link between the concepts of regionalism and of integration. Regional organisation does not only reflect the status quo but is an active force.²¹³

In addition to its structural weakness and power restriction, the League experienced managerial and budgetary shortages that impeded its role in many areas of Arab joint actions. The Secretariat-General lacked technical expertise in many fields. This made it less influential in preparing different plans and convincing member states. Moreover, the League faced and still faces real budget crises since its members are not paying their

²¹² Sulaiman al Munziri, "Arab Economic Unity: Concerns and Worries", *Arab Affairs*, in Arabic, No. 77, March 1994, pp. 93-6.

²¹³ Ali al Deen Hilal, p. 119.

dues regularly.²¹⁴ In fact, the League budget is less than \$27 million,²¹⁵ a very small budget considering what is expected from a regional organisation trying to enhance or achieve common goals for more than 250 million Arab citizens.

To overcome the organisational and functional shortcomings of the League, there were many attempts to amend the Charter and improve it, so the League can play a more influential role in achieving Arab integration, if not unity, in the near future and in ensuring the rights of Arab citizens. At the organisational level, the amendment should; first, reach the decision-making process of the Council of the League and make it more effective; secondly, integrate in the body of the League the Arab Tribunal of Arbitration that is mentioned in Article 19 of the Charter, and this institution can help effectively in resolving inter-Arab conflicts in an institutional and legal manner. Moreover, it is necessary to modify the relations between the Secretariat-General and the Specialised Agencies to achieve a more harmonised framework of action.²¹⁶ El Solh took the issue of amendment further when he considered that the League should be more reflective to public opinion by inviting citizens, and not only diplomats, to participate in direct elections to form the League's councils and agencies. In addition, he proposed the formation of a League Parliament that "could act as an observer in a consultative capacity, but which would also have the right to discuss the general budget and decide upon it."²¹⁷

The amendment was also considered by Arab leaders since in the Cairo Summit of June 1996, they gave general instructions to develop an amendment plan, in which an Arab Court of Justice and an Arab Peace Keeping Force would be established, in addition to granting greater power to the Secretary General.²¹⁸ However, pending the formal approval of the Arab states, the plan still remains an ultimate idea, added to many other unimplemented resolutions.

²¹⁴ Abdul Rahman Ismail al Salihi, "The Renewal of the League of Arab States within the Scope of International Changes", *Arab Affairs*, in Arabic, No. 81, March 1995, p. 71.

²¹⁵ Raghid el Solh, p. 83.

²¹⁶ Ali al Deen Hilal, p. 124.

²¹⁷ Raghid el Solh, p. 83.

²¹⁸ Michael Hudson, "Arab Integration: an Overview" in Michael Hudson, p. 12.

CHAPTER FIVE

THE LEAGUE OF ARAB STATES: FUNCTIONS

5.1 Introduction

After differentiating between the political and economic aspects of integration in chapters two and three, and examining the performance of the LAS through a neo-functional analysis in chapter four, this chapter will study the role of the League in promoting Arab regional integration within the political and economic spheres. The focus is on the external and structural environment that shaped the League's function.

This chapter will be divided into three sections. The first examines the League's role in political integration, reviewing the League's efforts in promoting Arab political integration. However, since the concept is wide and the means and the end stages of political integration are not clear, as reviewed in chapter two, this section will study the role of the League in achieving the following tasks: first, integrating the foreign policies of Arab member states; secondly, resolving inter-Arab conflicts; and thirdly, facilitating the establishment of an Arab security system.

The second section is dedicated to discussing two main factors that were behind the League's failure in promoting Arab political integration: the characteristics of inter-Arab politics or inter-Arab relations, and the influence of external powers. The point about discussing them in a separate section is to highlight their significance in influencing Arab integration in general.

The third section will consider different regional economic attempts instigated by the League starting from the early 1950s until the establishment of the GAFTA in 1998. In addition, it will examine various economic and political constraints that obstructed the League's function in promoting Arab economic integration.

5.2 The League of Arab States and Arab political integration

The concept of political integration is wide. It stretches from simple attempts to harmonise or integrate foreign policies between a group of states to the establishment of a unified and larger political unit or a federal arrangement. Accordingly, since the end stages and attempts to political integration are not well defined by protagonists as reviewed in chapter one, this section will focus on the role of the LAS in attaining three different functions, presuming that they represent important features of political integration. The League's role will be examined in attempting to harmonise the foreign policies of Arab states; in resolving inter-Arab conflicts; and in establishing an Arab collective security system.

5.2.1 Foreign policies integration

Before discussing the League's role in integrating the foreign policies of Arab states, it is important to note that two major factors made the LAS a necessary Arab forum. These factors are: Nasser's initiative in 1964 that summoned the first Summit of the Heads of States in Cairo to discuss ostensibly the diversion of Jordan River water by Israel, and second, the need of Arab leaders to unite efforts for common domestic and regional security reasons vis-à-vis the protracted Arab-Israeli conflict.

The League was successful in integrating the foreign policies of Arab States on the Palestinian question. It managed to maintain an Arab common stand vis-à-vis Israel until the Baghdad Summit in 1978.²¹⁹ For example, the Cairo Summit in 1964 established the Palestine Liberation Organisation (PLO) and gave it Arab legitimacy to represent the Palestinians living under occupation or diasporas. The PLO was later admitted to the League in 1976. The Khartoum Summit in 1967, held after the defeat of Arab neighbouring countries against Israel in June 1967, adopted the three famous "Nos" policy; No to direct negotiation with Israel, No to recognition of Israel and No to peace with Israel. However, the same resolution showed flexibility toward any political solution that could restore the Arab lost territories during the war. The Algiers Summit in 1973 endorsed an innovative but unified position vis-à-vis the Arab-Israeli conflict. It proclaimed the acceptance of a "just peace" that could only be achieved by the

²¹⁹ Rosemarie Hollis, "The Arab League and the Arab-Israeli Conflict" in Information Directorate of the League of Arab States, *The Golden Jubilee of the League of Arab States: Looking to the Future*, pp. 41-2. Also refer to Ahmad Ismat Abdul Maguid, "The League of Arab States and Recent Issues", p. 13.

withdrawal of Israel from the Arab occupied territories. In sum, Hollis argued “the League’s position on the Palestine problem has itself evolved from the quest to liberate Palestine to the endorsement of a peaceful resolution of the conflict.”²²⁰

Moreover, in addition to the resolutions adopted in different Arab Summits, the League established the Arab Boycott office and provided certain material support to the Palestinian refugees’ problems.

On the other hand, the Baghdad Summit of 1978 adopted an unusual stand vis-à-vis an Arab member state that “defected” from the ordinary Arab track; Egypt’s membership was suspended from the League after President Anwar Sadat ratified the Camp David Accord with Israel in Washington bringing a new dimension to the Arab-Israeli relations. It was the first time in its history that the League was united against a prominent founding member. Particularly, it showed a careful competence in maintaining Arab solidarity against Israel and against any Arab state that would recognise it during that time.

In spite of its political achievement in maintaining, comparatively for a long period, an Arab common stand on the Palestinian issue, al Rashdan argued that the Arab joint action at the political and diplomatic levels suffered from many flaws. Since Arab countries had different interests and principles,²²¹ the League was not able to integrate their foreign policies at all times, especially when the region was facing a real change in the balance of power. These phenomena clearly occurred after the defeat of Egypt in 1967, and in the beginning of the 1990s, after the Second Gulf War and the defeat of Iraq. Consequently, the Arab common and united stand was obstructed first in Camp David and secondly in Madrid 1991.

Although the League showed Arab solidarity against the Camp David Accord, however, it could not prevent Egypt from signing a peace treaty with Israel. Moreover, the League was absolutely obsolete in the peace talks and negotiations held in Madrid in 1991 between Israel and its Arab neighbouring countries.²²² As a result, separate agreements were concluded between the PLO and Israel in 1993 and 1995, known as the Oslo Agreements, and a peace treaty was signed between Jordan and Israel in 1994. The League had no influence on the proceedings of political events nor on their outcomes.

²²⁰ Ibid., p. 43.

²²¹ Abdul Fatah al Rashdan, “The League of Arab States: More than a Half Century after its Establishment”, *Arab Affairs*, in Arabic, No. 95, September 1998, p. 7.

²²² Michael Hudson, p. 11.

In sum, the LAS, which was built on the sanctity of individual state's sovereignty and independence, could not achieve much in integrating members' foreign policies. However, the League succeeded to a certain extent in shaping Arab states with a common consent against Israel. Hinnebusch argued,

The Arab League attempted to institutionalize respect for the sovereignty of individual states while acknowledging shared Arab identities and the need for a collective response to the common threat from Zionism. Its legitimacy was, however, tarnished by its failure to coordinate the self defence of Palestine, and the most it achieved was a consensus against relations with Israel.²²³

5.2.2 Conflict resolution

The function of the League to resolve inter-Arab conflicts²²⁴ is a crucial factor in promoting integration between Arab states. It is not feasible to start discussing any scheme of integration without resolving inter-Arab conflicts. In fact, Haas argued, "conflict resolution is a particularly interesting indicator for judging progress along the path of integration."²²⁵

The League's role in settling inter-Arab disputes and preventing inter-Arab wars was far from achieving a real success. Its mediation was not successful in many cases attempted, and usually member states relied on external agents or mediators to resolve their problems. Al Majzub wrote,

Some disputes may find their solutions outside the framework of the Arab League because of the preference of one or more of the parties of the disputes to use a specific diplomatic course, such as referring to a third party, Arab or foreign states or resorting to direct bilateral diplomatic negotiations. In the disputes between Morocco and Algeria, the mediation offer of some Arab sates

²²³ Raymond Hinnebusch, "The Middle East Regional System" in Raymond Hinnebusch and Anoushiravan Ehteshami, (eds.), *The Foreign Policies of Middle East States*, London, Lynne Rienner, 2001, p. 35.

²²⁴ Abdul Rahman Ismail al Salihi, p. 71.

²²⁵ Ernest Haas, "International Integration: The European and the Universal Process", p. 231.

(Tunisia and the United Arab Republic) was rejected while the Republic of Mali was accepted as a mediator.²²⁶

The states in dispute usually resorted to an outside framework to resolve their conflict because either the League was divided and adopted “a position of indifference”,²²⁷ or it showed a biased stand. The latter situation especially happened when Egypt was involved during Nasser’s period. Therefore, member states lacked confidence in the League, which made it less credible in that respect. In fact, Hudson confirmed

On the inter-Arab stage, the League was even more ineffectual. Arab league mediation was attempted in a number of crises, such as the Lebanese civil war of 1958, the Jordan-Palestinian crisis of 1970, the conflicts between North and South Yemen, and the early stage of the 1975-1989 Lebanese civil war. But in none of these cases was the mediation decisive in resolving the conflict. And in the greatest modern crisis in inter-Arab relations – the Iraqi invasion of Kuwait in 1990 – the League was even less in evidence than it had been during the Iraqi-Kuwait crisis at the time of Kuwait’s independence in 1962.²²⁸

Particularly, the failure of the League to resolve successfully inter-Arab conflicts was due to many factors. First, the League did not assume a clear role in this respect. As provided by its Charter and mainly Article five, the parties to the dispute should refer to the Council of the League if their conflict or difference “does not concern a state’s independence, sovereignty, or territorial integrity.” However, if their “difference” is related to such matters, the League did not guide the disputing states how to follow the legal and legitimate path to resolve their conflicts; this is why each party was choosing its own and suitable way to protect its interests.

Secondly, the inefficiency of the League in resolving inter-Arab conflicts was related to the specificities of certain Arab norms that shaped inter-Arab relations. The League was impinged by a normative vagueness of “Arab brotherhood” that made it legally incompetent in settling inter-Arab disputes. There was no need for an effective judicial and institutional “protocol” when alleged “brotherhood” could work. Owen affirmed,

²²⁶ Muhammad al Majzub, “Observations in the Role of the Arab League in Settling Inter-Arab Disputes”, *Arab Affairs*, in Arabic, Vol. 1, No. 1, Summer 1986, p. 140.

²²⁷ Ibid., p. 142.

²²⁸ Michael Hudson, pp. 11-2.

“in terms of actual practice, the League acted as though the Arab states should conduct their relations more in terms of notions of brotherhood than of protocol. This can be very easily seen in the League’s lack of any mechanism for settling disputes about interference in each other’s internal affairs”.²²⁹ Actually, the League has been short of inventing any mechanism of settling inter-Arab disputes peacefully because of “the assumption that the Arab states were so similar in kind that such a mechanism was both unnecessary and inappropriate.”²³⁰

Thirdly, Shukri considered that the major obstacle that prevented the League from accomplishing its proper responsibility in conflict resolution was due to the lack of will of Arab leaders. The League can play a decisive role in this respect only if it is granted greater power. However, as mentioned previously, Arab leaders were not ready to confer any additional authority that weakens their positions even if it strengthens the League’s function and provides it with necessary means to play such a major role. Shukri added

With the exception of the Iraqi threat to Kuwait in 1961 and the beginning of the Lebanese crisis in 1976, the League has proven to be most inefficient in any major inter-Arab or Arab-non Arab conflict for one major reason: the lack of political will among the majority of Arab leaders to provide it with the tools to play any functional role in preventive diplomacy and conflict resolution. The Kuwait crisis of 1990-1991 is a clear-cut and disheartening example, for its ramifications in blocking the League from functioning properly are still present today.²³¹

Finally, the reluctance of the League to establish the Arab Tribunal of Arbitration as provided for in Article 19 of the Charter, or the establishment of any other institution that functions properly in conflict resolution, left the League under the mercy of Arab leaders who mostly lacked the necessary enthusiasm to interfere. This structural

²²⁹ Roger Owen, *State, Power and Politics in the Making of the Middle East*, 2nd edition, London, Routledge, 2000, p. 73.

²³⁰ Ibid., p. 74.

²³¹ Muhammad Aziz Shukri, “Preventive Diplomacy and Conflict Resolution by the Arab League” in Information Directorate of the League of Arab States, *The Golden Jubilee of the League of Arab States: Looking to the Future*, p. 55.

weakness, discussed in chapter three, also obstructed the role of the Secretary-General who was trying hard to play a major political role in times of crises.²³²

In sum, certain Arab norms, the lack of leaders' wills and the lack of the necessary institutional framework made "the work of the League in the settlement or solution of conflicts marked by vacillation, hesitancy and slow progress."²³³ Furthermore, the accommodation's role discussed by Haas was not played effectively by the League, and therefore, its efforts in promoting political integration were not credited in this respect.

5.2.3 Collective security

Certain conditions are needed for the functioning of a collective security system. First, the participating units must reckon that the status quo is just and worth being defended. Secondly, states must be collectively capable to defend themselves against any aggression and secure the prevailing equilibrium. Thirdly, the major international actors must be members of a collective security league, and their leaders judge peace not only as a national interest, but also as a collective one.²³⁴ Consequently, substantial consensus and adherence to international law are necessary to exercise power in a collective security system. Individual nations continue to be sovereign, but they join collective actions to resist aggression. United efforts are needed to maintain peace; states voluntarily integrate their forces and adhere to legal and moral obligations to maintain collective peace. They ally themselves at time of aggression by joining economic and military sanctions as a punishment to a hostile attempt by an enemy.

The idea of creating an Arab collective security system was ostensibly related to the Palestinian problem or the Arab-Israeli conflict in general. After the Arab-Israeli war in the late 1940s, and Jordan's attempt to reach a political settlement with Israel, Egypt tried to further its regional power in the Arab World by linking the security of Arab states neighbouring Israel to its military power. Both Egypt and the newly established Arab states had mutual interests in promoting such a system in the region; Egypt would be undermined by any political settlement attempted by other Arab states since it will weaken its leading role in the region, and the leaders of Arab states felt the need to

²³² Abdul Rahman Ismail al Salihi, p. 80.

²³³ Muhammad al Majzub, p. 141.

²³⁴ Gordon C. Schloming, *Power and Principle in International Affairs*, Orlando, Harcourt Brace Jovanovich, 1991, p. 112.

integrate their military capabilities and establish a collective security mechanism against the military threat of Israel.²³⁵ Therefore, on 17 June, 1950 the states of the League: Jordan (Transjordan), Syria, Iraq, Saudi Arabia, Lebanon, Egypt and Yemen,²³⁶ adopted the Defence and Economic Cooperation Treaty to “cooperate for the realization of mutual defence and the maintenance of security and peace.”²³⁷ Accordingly, they established the Permanent Military Commission composed of the representatives of the General Staff of the member countries, and the Joint Defence Council made up of the Foreign and Defence Ministers.²³⁸ The major aim of the treaty was to achieve an Arab collective security system.

In spite of ratifying the Defence and Economic Cooperation Treaty, and in spite of stipulating in Article six of the League’s Charter that in case of any aggression against any member state “the Council shall by unanimous decision determine the measures necessary to repulse the aggression”, the League showed little success in maintaining regional security. It was incapable of integrating Arab military capabilities into a collective security system mainly because the conditions of establishing such a system did not completely exist.

First, Iraq was clearly not satisfied with the status quo. And with existing differential power capabilities, Iraq threatened and invaded Kuwait easily twice, in 1962 and in 1990 claiming that the latter was part of its territories. The League played an important role in resolving peacefully the conflict in 1963, however, in the second attempt, only an international coalition led by the United States was capable to contain an ambitious leader such as Saddam Hussein and liberate Kuwait. The league was absolutely paralysed in preventing the aggression or defending Kuwait. However, the second invasion proved that the initial attempt to resolve the conflict was not totally successful since the claim of annexing Kuwait was still an Iraqi’s option.

Secondly, the collective and integrated military capability of Arab states was not powerful enough to face the military threat of an external enemy such as Israel, and the League was not playing any central role in coordinating Arab military efforts in that respect. Accordingly, all Arab states neighbouring Israel were defeated in 1967 and

²³⁵ Tawfig Y. Hasou, pp. 69-70.

²³⁶ The formalities of ratification were completed by August 1952.

²³⁷ Refer to the Preamble of the Treaty of the Joint Defence and Economic Cooperation between the States of the Arab League, *Arab Affairs*, Vol 1, No. 2, Winter 1986/87, p. 194.

²³⁸ Refer to Articles 5 and 6 of The Treaty, p. 195.

even Iraq was attacked. The repercussions were tremendously devastating at both the military and political levels. On the other hand, Arab military efforts were more successful in the 1973 War launched by Sadat and Assad, however, it proved to be far from achieving the real victory needed to reconsider the establishment of a more functional Arab collective security order after the terrific prestige and material losses in the 1967 war.

Thirdly and most importantly, Arab leaders were in continuous struggles to lead the regional order. They did not consider that regional peace is a collective interest and they had no moral obligations to maintain the status quo. They kept interfering in each other's internal affairs to enhance their own interests. For example, Nasser tried to shape many Arab regimes, and Iraq and Syria were in conflict for a long period. They were all interfering in the internal affairs of the PLO, Jordan and Lebanon. This continuous struggle shaped the regional relations of Arab states, and in the absence of a set of agreed regional norms it was hard to define who the aggressor is and what aggression is. Particularly, even after the Iraqi invasion of Kuwait Arab leaders were divided in identifying whether Iraq was an aggressor or not. Consequently, this constant quest for leadership made the League unable to design any acceptable or legitimate scheme of collective security in the Arab World. Shukri concluded

Despite the Treaty for Joint Defence of 1950, the League, together with its military arm and unified military command (which was set up by the Cairo Summit of 1964), has been a 'see-nothing' witness in all the major Arab armed conflicts: 1956, 1967, 1978, and 1982 in Lebanon, and the Iraqi invasion of Kuwait on 2 August 1990, and so on. It should be remembered that the liberation of Kuwait by Allied forces was carried out under a contentious interpretation of Chapter VII of the UN Charter, not under the League Covenant or under decision No. 195 of the Extraordinary Arab Summit of Cairo on 10 August 1990.²³⁹

In sum, the LAS was more successful in maintaining an Arab common consensus vis-à-vis the Arab-Israeli conflict in the 1950s and 1960s but it was inefficient in shaping

²³⁹ Muhammad Aziz Shukri, p. 53.

some crucial political events, such as the Camp David Accord and the Madrid peace talks. The League showed larger incompetence in taking further the Arab political collective efforts. The main reason in general was the intrinsic deficiency of the League to determine from its inception its own definition of political integration and to clarify accordingly its programme. Therefore, political events shaped the League's role in promoting political integration, and in the absence of any declared and defined function, the LAS could not achieve any success in that respect.

5.3 Main reasons behind the failure of Arab political integration

This section will examine two external factors that obstructed the League from achieving real progress in promoting political integration. These features are mainly related to the characteristics of inter-Arab politics (or inter-Arab relations) and the influence of external powers.

5.3.1 Inter-Arab politics

The specificities of inter-Arab relations stemmed from the colonial history of the Arab World. The legacy of imperialism shaped to a large extent inter-Arab politics. In fact, after the demise of direct colonialism, Arab states found themselves unequal actors in a security-prone regional system unequivocally designed by the colonial powers. The pattern of fragmentation adopted by the colonial powers had a great impact on inter-Arab regional relations; at the domestic level, states were irredentist and they were fragmented between *de facto* boundaries and unmatched identities, whereas at the regional level, they found themselves unequal neighbours where large and powerful states continuously threatening the material and legitimate existence of smaller ones.²⁴⁰ European powers shaped the foreign policies of many Arab states by projecting the regional structure of the Middle East in general. Ehteshami and Hinnebusch wrote,

They (the European colonial powers) built instability (conflict, revisionism) into the system and not so much from the anarchy inherent in a state system per se, as from the profound flaws in the particular architecture of the resulting system, notably the

²⁴⁰ Arab and Middle East states are significantly different in terms of size, population, resources and geo-political endowments.

poor fit between state and identity, the uneven fragmentation (by which large dissatisfied states were juxtaposed to small client states), and the ongoing penetration of the region by the core.²⁴¹

Moreover, Owen deduced other peculiarities of inter-Arab relations. First, he considered that Arab states were prone to trans-states forces based on “the general assumption that boundaries are porous and that neighbours will attempt to interfere.”²⁴² Accordingly, states or regimes adopted a pre-emptive behaviour as a pattern to consolidate their independence. Secondly, Owen believed that conflicts between Arab states did not emanate from “objective reasons”. Clashes were more related to discourse disparities of Arab leaders than to material issues. Finally, he concluded that such porous regional system made fewer differences between foreign and domestic politics. Therefore, “regimes habitually [attempted] to find support, and even legitimacy, across such borders while having to pay close attention to rival attempts to do just the same.”²⁴³

Consequently, inter-Arab relations were never steady since independence and they witnessed at the same time patterns of contention and cooperation. Barnett described inter-Arab politics in the preface of *Dialogues in Arab Politics* as follows:

For many observers, inter-Arab politics can be defined by the search for integration among Arab states and peoples, inspired by the belief that they are members of the Arab nation, only to be undermined by the existence of latent mistrust and manifested conflict. Such antagonism, however, never fully extinguish the promise of integration, for the Arab states almost always return to solidarity after such conflict. Inter-Arab politics exhibits an inescapable rhythm of conflict and cooperation, itself a product of the dialectic of unity nurtured by the existence of transnational bonds and of the variety generated by rivalries that are part and parcel of territorial possessiveness and personal jealousies.

²⁴¹ Raymond Hinnebusch and Anoushiravan Ehteshami, “Conclusion: Patterns of Policy” in Raymond Hinnebusch and Anoushiravan Ehteshami, pp. 335-6. The authors defined anarchy as “the absence of government, seen by realism as the main distinction between domestic and international politics”, p. 351.

²⁴² Roger Owen, *State, Power and Politics in the Making of the Modern Middle East*, p. 74.

²⁴³ Ibid, p. 75.

This swinging conflict and cooperation model of Arab relations witnessed, intermittently, decisive periods of Arab cooperation, such as the military and political cooperation during the Arab-Israeli wars of 1948 and 1967 and especially of 1973. Moreover, these periods of cooperation were also illustrated to a certain extent, and at least diplomatically in securing the peace process in the Middle East, especially after the election of Netanyahu as Prime Minister in Israel in 1996.²⁴⁴ Following the election of a Likud-led government (lead by the Israeli Prime Minister Benjamin Netanyahu) “which showed little interest in withdrawing from more parts of the West Bank as laid down in the Oslo Accords”,²⁴⁵ Arab leaders worried that the newly elected government could threaten the peace process and intimidate their regional and international commitments to a legitimate peace. They put their conflicts aside and decided to resume Arab Summits in 1996 after they were halted for six years following the deep rift in inter-Arab relations during the Second Gulf War.²⁴⁶ Actually, the proceedings of the peace process bypassed the League’s duty since it “was paralyzed, with no agreement possible on holding an Arab summit between 1990 and 1996 even though momentous decisions were being taken affecting the common Arab interests.”²⁴⁷

Inter-Arab relations were subject to alteration whenever domestic or regional changes occurred. They had no defined strategy as always alleged by Arab leaders’ political discourses based on common identity or common history or interests. They were never stable and, therefore, it was not possible for the LAS to act in such an unstable political environment and promote political integration in the Arab World.

Historically, in the mid 1940s and early 1950s, Egypt and Saudi Arabia were close enough to resist the Hashemite alliance in Iraq and Jordan, and oppose the implementation of the “Greater Syria” plan. Moreover, during the same period, Egypt and Iraq were struggling for the type of regional arrangement that should exist in the Middle East. In 1958, Egypt and Syria formed the United Arab Republic (UAR), which

²⁴⁴ Muhammad Muslih wrote “the Guidelines of the government of Israel, communicated by Prime Minister-elect Netanyahu’s bureau on 17 June 1997, reiterated the Likud platform’s principles. The Guidelines stressed, *inter alia*, that Israel ‘will oppose the establishment of a Palestinian state or any foreign sovereignty west of the Jordan River’, reiterated that ‘the status of Jerusalem as the eternal capital of the Jewish people’, and emphasised that ‘retaining Israel sovereignty over the Golan will be the basis for an arrangement with Syria’. Quoted in Muhammad Muslih, “Palestinians and Other Perspectives on the Peace Process” in Robert O. Freedman, (ed.), *The Middle East and the Peace Process: The Impact of the Oslo Accords*, Gainesville, University Press of Florida, 1998, p. 96.

²⁴⁵ Roger Owen, *State, Power and Politics in the Making of the Modern Middle East*, p. 104.

²⁴⁶ Ahmad Yusuf Ahmad, “The Future of the Arab Nation and the Role of the League of Arab States”, *Arab Affairs*, in Arabic, No. 93, March 1998, p. 9.

²⁴⁷ Raymond Hinnebusch, “The Middle East Regional System”, p. 49.

ended up severing its diplomatic relations with Saudi Arabia following the Yemeni civil war. In the early 1960s, the UAR disintegrated after a deep political crisis, and Egypt became closer to North Yemen, Algeria and Iraq. On the eve of 1973 War, Egypt, Saudi Arabia and Syria witnessed excellent and warm political relations that broke off after Egypt signed the Camp David Accord and was expelled from the LAS. Later on, in the late 1980s, Egypt was readmitted to the League and had better relations with all Arab countries. In early 1990s, after the Iraqi invasion of Kuwait, Arab states were split and Arab Gulf states severed their diplomatic relations with the PLO, Jordan and Yemen since the latter sided with Iraq.²⁴⁸

Moreover, the change in the Arab balance of power at the beginning of the 1970s and the inability of any other country to replace Nasser's Egypt slowed down, theoretically, any progress of political integration. There was no Arab country that could act as an integrating core.²⁴⁹ Deutsch believed that "the process of integration often begins around a core area consisting of one or a few political units which are strong, more developed, and in some significant respects more advanced and attractive than the rest. The governments and political elite of such potential core areas of a prospective larger political system then often act as active leaders, unifiers, or elite for the emerging integrated political system."²⁵⁰

Actually, conflicts and rivalries were more pervasive than integration in shaping inter-Arab relations since the former reflected reality while the latter was no more than rhetoric. Tibi confirmed "since the creation of the Arab state system in the wake of the decolonization of Arab lands, the rhetoric of pan-Arab unity has been the prevailing pretension in inter-Arab politics. Yet, conflict, not cooperation, has been the hallmark of highly competitive Arab states policies, and inter-state relations have been characterised more by decisive coalitions than by cooperative integration."²⁵¹

States and leaders' rivalries in the Arab World derived mainly from clashing interests. Arab interests would not be practically accommodated in an environment of competition and struggle for Arab leadership in the name of Arabism or the Arab-Israeli conflict. One scholar noted,

²⁴⁸ Ata Muhammad Saleh Zahra, "The Arab Regional System and the Current International and Regional Changes", *Arab Affairs*, in Arabic, No. 77, March 1994, pp. 111-2.

²⁴⁹ Ahmad Yusuf Ahmad, p. 17.

²⁵⁰ Karl Deutsch, *The Analysis of International Relations*, p. 275.

²⁵¹ Bassam Tibi, p. 92.

Even without the Arab-Israeli conflict, the Arab Middle East would have been a conflict-ridden and conflict-generating area. The aspirations and pretensions of Arab nationalism, with its visions of Pan-Arabism and Arab unity, would have clashed- as they did – with the interests of the several Arab states which, except for Egypt, were literally put together from the debris of the collapsed Ottoman Empire.²⁵²

It was considered that the LAS inflamed inter-Arab relations by making Arab states more bounded, and consequently, more vulnerable. In fact, “the League’s Charter envisioned an association in which members were accountable to each other in name only, but they had become much more mutually vulnerable to each other since the end of the World War II.”²⁵³

Some intellectuals went further in discussing political tensions and rivalries between Arab states and stressed the geographical and historical divisions in the Arab World such as the Nile Valley, the Fertile Crescent, the Arabian Peninsula and the Maghreb, where each region forms a distinct society with different interests. Consequently, “although the Arab League was intended to provide the institutional basis of a comprehensive system of inter-Arab cooperation, it actually became a vehicle through which latent rivalries were brought to the surface.”²⁵⁴

Finally, an important aspect of Arab politics that obstructed political integration is rooted in the unstable domestic structure of most Arab states and their vulnerability to transnational forces. The domestic political structure and its reliance on oligarchic and personal interests threatened the process of integration, since leaders felt more insecure in collaboration with other “brothers” that could interfere in their domestic affairs in the name of Arabism.²⁵⁵ “Arab States ranked their survival and security ahead of Arab sentiments, and when they pledged their devotion to Arabism, the pledge usually came with empty rhetoric and false promises, a manipulative attempt to shore up a domestic situation, or an effort to bludgeon and embarrass an opponent.”²⁵⁶

²⁵² P. J. Vatikiotis, p. 77.

²⁵³ Michael Barnett, p. 120.

²⁵⁴ Alan R. Taylor, *The Arab Balance of Power*, New York, Syracuse University Press, 1982, p. 24.

²⁵⁵ Ahmad Yusuf Ahmad, p. 17

²⁵⁶ Michael Barnett, p. 1.

In addition, the weak and unstable state-society relationships also compelled leaders to focus more on internal and domestic adjustment. Noble considered that “intensified domestic instability [was] more likely to impede cooperation. In the first place, it could lead governments to concentrate their attention and energies on the internal front to the detriment of inter-Arab cooperation.”²⁵⁷

5.3.2 Influence of external powers

Regional or international powers can play a decisive role in promoting or hindering the process of integration.²⁵⁸ The United States was highly supportive of the creation of the EU and its development during the Cold War. In contrast, in the case of Arab integration, major powers had a reverse effect. During the Cold War, Arab states were polarised and divided along superpowers’ rivalries.²⁵⁹ Therefore, the Arab regional environment was not suitable to promote further development of Arab political integration.

Furthermore, the demise of the Soviet Union and the end of the Cold War did not create a better political environment. The United States was and still is against any substantial aspect of Arab political integration since a unified Arab policy or framework will strengthen the position of Arabs and lead to a natural confrontation. Consequently, the US interests in protecting the oil flow in the Gulf and bolstering the security of Israel will be threatened.²⁶⁰ Accordingly, el Solh proclaimed,

The international actor which has an influence upon the region is putting pressure on Arab ruling elites with the aim of weakening the League and the collective Arab personality which it represents. There is a joint American-Israeli pressure, which aims to atomize the Arab states and force them to enter bilateral relations on an unequal footing. We witnessed chapters of these

²⁵⁷ Paul Noble, p. 85.

²⁵⁸ Ernest Haas, “The Study of Regional Integration: Reflection on the Joy and Anguish of Pretheorising”, p. 17.

²⁵⁹ Bahgat Korany, Paul Noble and Rex Bryan, “The Changing Regional Security Environment” in Bahgat Korany, Paul Noble and Rex Bryan, pp. 275-279.

²⁶⁰ Ahmad Yusuf Ahmad, pp. 13-4.

procedures at the Madrid Conference, where the League was not permitted to participate.²⁶¹

The New World Order ushered different competitive plans that threatened and outdated the dream of Arab unity or integration, such as the “Middle Easternism” supported by Israel and the United States or the “Euro-Med Partnership” advocated by the European Union. In fact, both schemes threatened the process of integration in the Arab World since they dealt with Arab countries individually.

In sum, the superpower rivalries during the Cold War, the American-Israeli agenda manifested lately in a Middle Eastern regional order, and the competing Euro-Med partnership backed by the European Union had all created new regional alternatives that competed significantly with the dream of Arab unity or any plan of Arab political integration. Consequently, these regional substitutes played a decisive role in hindering the role of the LAS in promoting Arab political integration.

5.4 The League of Arab States and Arab economic integration

Economic integration, as reviewed in chapter three, is a broad concept. It ranges from few steps facilitating mutual trade between two or a group of states to the creation of an economic union. This section will consider almost all substantial regional attempts instigated by the LAS to enhance economic integration between Arab states. Moreover, it will examine the performance of the League and its achievement in a wider context by considering different political and economic factors that affected to a large extent its function.

5.4.1 Attempts at economic integration

The LAS made a greater effort in promoting economic integration. Roberts observed “one only has to look at the sub-organizations of the Arab League to realize that something like two-thirds of all organizations it has spawned since 1945 are concerned, with one way or another, with economic issues.”²⁶²

²⁶¹ Raghid el Solh, p. 85.

²⁶² John Roberts, “The Future of Arab Economic Integration” in Information Directorate of the League of Arab States, *The Golden Jubilee of the League of The Arab States: Looking to the Future*, p. 91.

The first attempt that initiated the process of economic integration began with the establishment of the Economic Unity Council (by the provision of the Treaty for Joint Defence and Economic Cooperation in 1950). The first meeting of Arab Economic Ministers in 1953 adopted the Convention for Facilitating Trade and Regulating Transit between the Arab States of the League.²⁶³ “One of its strongest exponents was Lebanon, which had a special interest in securing access to Arab markets as a way of reducing its dependence on Syria following the break-up of the customs union between the two countries in 1950”.²⁶⁴ The emphasis was to facilitate the free movement of goods, capital and persons. However, in spite of some progress in reducing tariffs on goods of agricultural origin, the protection of industrial commodities was one of the main interests for all signatories. Moreover, the agreement had “little significant effect on inter-Arab trade”²⁶⁵ due to major disagreements between states; some felt threatened by the implementation of the treaty since it would reduce their revenues from customs duties.

In fact, the 1950 agreement was not a purely economic initiative; it was an Egyptian reaction to Emir Abdullah’s attempt to sign a separate peace treaty with Israel. Egypt felt that if such attempt happened, it would affect its regional prestige as a leading power in the Arab World.²⁶⁶ Moreover, the agreement was interpreted as a preventive attempt to stop any challenge of unification in the region. Barnett argued “Nuri al-Said characterised the military pact as a substitute for action and attempt to block the proposed Iraqi-Syrian unification.”²⁶⁷

A second major attempt was the ratification of the Economic Unity Agreement by the Economic Council of the League in 1957. The Agreement was approved by twelve member states: Jordan, Tunisia, Sudan, Iraq, Saudi Arabia, Syria, Egypt, Lebanon, Libya, Yemen, Morocco and Kuwait.²⁶⁸ Later on the PLO became a signatory. The aim of the treaty was to establish a “complete economic unity” between its members on the basis of elimination of all barriers and restrictions to the movement of people, capital and goods. To reach such unity, the member states had to ensure “the freedom of

²⁶³ These states are the seven founding members of the League.

²⁶⁴ Roger Owen, *State, Power and Politics in the Making of the Modern Middle East*, p. 78.

²⁶⁵ Roger Owen, “Arab Integration in Historical Perspective: Are there any Lessons?”, *Arab Affairs*, Vol. 1, No. 6, Spring 1986, p. 45. Also refer to Sulaiman al Munziri, p. 93.

²⁶⁶ Michael Barnett, p. 94.

²⁶⁷ Ibid., p. 101.

²⁶⁸ Refer to the Economic Unity Treaty in Alfred G. Musrey, *An Arab Common Market: A Study in Inter-Arab Trade Relations, 1920-67*, London, Frederick A. Praeger, 1969, pp. 169- 177

residence, work, employment, exercise of economic activity, transport and transit, the use of the means of transportation and of the ports and civil airports.”²⁶⁹ Moreover, a specialised body, the Arab Economic Unity Council (AEUC), was established to determine the necessary steps needed for the implementation of the Agreement.²⁷⁰

The Arab Economic Unity Agreement went into effect in 1964, when the Arab Economic Unity Council established the Arab Common Market (ACM). The latter aimed at achieving the same objectives as were endorsed in the Agreement and, practically, it called for “the removal of customs duties and other restrictions on trade in domestic products between the countries that had ratified the Economic Unity Agreement.”²⁷¹ Only five states joined the ACM: Egypt, Jordan, Syria, Iraq and Kuwait. However, Kuwait didn’t ratify it. The signatories agreed on the abolishment of all duties and quantitative restrictions starting as of 1 January, 1965.²⁷²

The Economic Unity Agreement was too ambitious. It could not achieve what it was calling for. It did not take into consideration the reality of members’ economies, their economic backwardness and the large gap in their economic development. Moreover, the implementation plan was vague regarding the duties imposed on members at the national and regional levels.²⁷³ Also, there was not a flexible timetable for the progressive abolition of trade barriers, nor a procedure to monitor the process and resolve conflicts that may emerge in due course. Members were free to implement the provisions of the Agreement in their own way without any obligation. This made the procedure rather blurred and imprecise although the AEUC was created for that purpose.

The so-called ACM was not actually a common market. Rather, it was a free trade area with certain limitations.²⁷⁴ In terms of trade liberalisation, which was the main concern of the ACM, “the national products had not been freed of all monetary, quantitative and administrative restrictions.”²⁷⁵ There were many problems that impeded the liberalisation of trade between the signatories, and trade between partners did not grow more than one percent a year from 1965 until 1970.²⁷⁶ Moreover, it was extremely

²⁶⁹ Article 1 of the Economic Unity Agreement.

²⁷⁰ Alfred G. Musrey, p. 108. Also refer to Sulaiman al Munziri, p. 97.

²⁷¹ Ibid., p. 109. Also refer to the Arab Common Market Resolutions in Alfred G. Musrey, pp. 178-184.

²⁷² Roger Owen, “Arab Integration in Historical Perspective: Are there any Lessons”, p. 45.

²⁷³ Sulaiman al Munziri, pp. 101-2.

²⁷⁴ Refer to Chapter Three to notice the differences between a free trade area and a common market.

²⁷⁵ Anthony McDermott, “The Arab World – a Place with Many-Markets”, *Arab Affairs*, Vol. 1, No. 9, Summer 1989, p. 5.

²⁷⁶ Ibid., p. 6.

difficult for member states to come into agreement and fix a common external tariff²⁷⁷ for many reasons such as contradictory economic interests, different interpretations of rules of origin and mainly fear from losing revenues in lowering external tariffs.

The major reasons behind the failure to move further towards a common market were the different economic policies and strategies adopted by member states. Owen confirmed

The scheme which was eventually agreed upon represented a very obvious compromise between the Egyptian proposal for a full economic union with common direction and economic policies and the desire of the member states to go no further than the creation of a regional market for certain goods by means of reduction or removal of certain barriers.²⁷⁸

Moreover, member states could not agree on a list of common goods that should circulate freely.²⁷⁹ As a result, they were reluctant to implement all resolutions adopted.

Another major reason was the lack of complementarities in the production of the ACM members. Their productive sectors were not suitable to produce inter-changeable goods that potentially could be traded between each other and reduce imports from the more industrialised states.²⁸⁰ Moreover, the benefits expected from the putative market and the idea of its establishment did not match the excessive protection schemes adopted by most states to safeguard their new industrialisation programmes. Therefore, "it would seem that the various states concerned agreed to enter the union for largely political reasons."²⁸¹

The third major effort attempted by the League was a set of economic arrangements prepared by the Economic Council and approved in the 1980 Eleventh Arab Summit in Amman. Egypt's membership was then suspended from the League. These actions were grouped in four different headings: "the Pan-Arab Charter, the Strategy for Joint Arab

²⁷⁷ Roger Owen, "Arab Integration in Historical Perspective: are there any Lessons", p. 46.

²⁷⁸ Ibid., p.46.

²⁷⁹ Abdessatar Grissa, "Arab Economic Integration: Current Reality and Future Prospects", Working Paper 9405, Cairo, Economic Research Forum for the Arab Countries, Iran and Turkey, 1994, p. 8.

²⁸⁰ Abdel Saheb Ilwan, "Arab Economic Integration and Food Security", *Arab Future*, in Arabic, No. 267, May 2001, pp. 93-4.

²⁸¹ Roger Owen, *State, Power and Politics in the Making of the Modern Middle East*, p. 78.

²⁸¹ Tahir Radwan, "Arab Unity and the Arab League: the Hope and the Reality", *Arab Affairs*, Vol 1, No. 1, Summer 1986, p. 149.

Economic Action, the Unified Convention for Arab Investments in Arab Countries and the Joint Arab Development Treaty.”²⁸² The main aim of these conventions was to achieve a unified economic area from all Arab economies.²⁸³

Article 11 of the Pan-Arab Charter called for preferential trade treatment between members. It also encouraged them to give priority to establish Arab joint projects, especially projects related to joint production and integration. The Charter advocated the free circulation of goods, labour and capital between Arab states. Also, it demanded the initiation of Arab regional planning which appeared to be a novelty compared to previous economic agreements.²⁸⁴

The Amman conventions could not be implemented and were ignored later on in the 1980s for several reasons. First, there were nineteen member states with substantial differences in trade priorities, therefore, they could not agree on common rules of origin, and they had clear divisions in selecting tradable goods that should circulate freely.²⁸⁵ Secondly, the Iran-Iraq war shifted the regional priorities of many member states, especially the Gulf States that started looking inward in promoting integration and cooperation following the establishment of the Gulf Cooperation Council (GCC) in 1981.²⁸⁶ Thirdly, the recession in the oil market and its economic repercussions made Arab countries more prone to internal adjustment since most of them faced severe balance of payments crises after the dramatic shortage of revenues and remittances.²⁸⁷

Finally, the recent major initiative espoused by the LAS was the establishment of the GAFTA based on the reactivation of the Facilitating and Developing Mutual Trade Convention between Arab Countries approved in the 1980 Amman Summit. The Arab Summit of Cairo on 21 June, 1996, advocated the establishment of an Arab Free Trade Area that would encompass all members of the League.²⁸⁸ Consequently, the Economic and Social Council endorsed a resolution on 17 February, 1997, declaring the establishment of the GAFTA. Therefore, starting from the first of January, 1998 and

²⁸³ The Charter of the Pan-Arab Action in Information Directorate of the League of the Arab States, *The Charter of the League of Arab States and its Most Important Regulations*, p. 56.

²⁸⁴ Ibid., p. 54

²⁸⁵ Abdel Hassan Zalzal, “The Arab Economic Action: The Distance and the Challenges. Reflection of an Eyewitness on his Age”, *Arab Affairs*, in Arabic, No 101, March 2000, p. 166.

²⁸⁶ Anthony McDermott, p. 9.

²⁸⁷ Abdel Hassan Zalzal, p. 151.

²⁸⁸ Only three Arab states did not ratify the Trade Conventions of 1980. Therefore, they are not members of the GAFTA yet. These countries are: Algeria, Comoros and Djibouti.

within a period of 10 years, member states must progressively (10 percent each year) abolish all barriers that obstruct the free circulation of goods of regional origin.²⁸⁹ The formation of the GAFTA was considered a transitional stage to establish a customs union before the creation of an Arab economic union. The progressive reduction of tariffs replaced the classical methods of negotiations. Moreover, a special committee was formed to resolve the conflicts that might arise during the implementation process.²⁹⁰

There was hope that the GAFTA would be a promising initiative after the successive failure of the League in achieving substantial economic integration in the Arab World. By eliminating trade barriers, the GAFTA would reallocate resources between Arab economies by harnessing comparative advantage, which could boost and diversify production. Moreover, if policy coordination goes further, the GAFTA may have an important role in attracting more investments to the Arab World.

Zalzala believed that the GAFTA was a reaction to external challenges rather than an internal Arab initiative.²⁹¹ He added that although the GAFTA is a step towards trade liberalisation, it can be considered as a protective measure against three challenges facing Arab states. The first challenge is embedded in the provisions of the World Trade Organisation (WTO), which urges equal treatment of all members. Arab members joining the WTO would open their markets to other WTO members. However, the provisions of the GATT (General Agreement on Tariffs and Trade) recognise the formation of regional economic arrangements between members. Therefore, the GAFTA could protect the ailing productive sectors in many Arab members, which have closer level of economic development compared to other more advanced economies.

The second challenge comes from the Euro-Med partnership. This arrangement eliminated the previous One Way Preferential Treatment that certain Arab states enjoyed vis-à-vis the EU. Therefore, Arab goods that used to be exported to the EU are now in need of new and less competitive markets. In principle, the GAFTA should act as an interim alternative.

The third challenge comes from the implementation of structural adjustment programmes in some Arab countries. These adjustments expose Arab economies to

²⁸⁹ Arab Monetary Fund, *The Arab Joint Economic Report*, in Arabic, Abu Dhabi, AMF, 2000; p. 171.

²⁹⁰ Abdel Hassan Zalzala, pp. 97-8.

²⁹¹ Ibid., pp. 167-8.

international market competition. Therefore, the establishment of the GAFTA would act as a regional transitional step pending the wider international integration.

The LAS was and still is attempting to achieve a wider Arab economic integration whether through treaties and conventions or by spawning new bodies specialised in functional integration. All these attempts did not bring much success, and every time the League was initiating a new policy, it failed to understand the reasons of its weakness and failure, and consequently, it did not learn lessons. Its efforts were more shaped by rhetoric and they were copying other successful attempts, especially those of the European Union²⁹² without considering major economic, social and cultural differences that may hinder the application of economic integration in the Arab World.

In view of the structural shortages mentioned in chapter four, the establishment of many specialised agencies and councils sometimes slowed down the work of the League in regional planning and economic integration. Some agencies duplicated each other's efforts. For example, the Economic Council and the AEUC were authorised to achieve economic integration with little coordination.²⁹³ This duplication had the tremendous effect of wasting time and resources, and it left the process of regional planning unorganised. Although the League established a special committee to coordinate the different activities of specialised agencies, its role was limited in economic integration since it could not solve the contradictions emerged from the lack of regional planning during the development of economic integration.²⁹⁴

Like political integration, economic integration was much influenced by different political and economic factors that were external to the League and more related to the make-up of the Arab World. These factors are reviewed in the following pages. Moreover, the various factors that hindered political integration can be considered as well in this analysis since they obstructed the role of the League in promoting economic integration.

²⁹² Ali al Deen Hilal, p. 123.

²⁹³ Sulaiman al Munziri, p. 104.

²⁹⁴ Abdul Rahman Ismail al Salihi, p. 82.

5.4.2 Political constraints to Arab economic integration

Domestic and regional instability in the Arab World were considered major factors that hindered the movement of capital, labour and goods.²⁹⁵ The inter-Arab relations, as mentioned earlier, witnessed lots of setbacks and crises, but the real change in Arab dialogues and politics occurred after the Iraqi invasion of Kuwait in 1990. A new debate emerged in the Arab World, and especially in the Gulf, questioning the importance of Arab joint initiatives in general, and stressing the reliance on the West economically, politically and especially in security issues.²⁹⁶

In fact, both Arabism and the Arab-Israeli conflict had a negative impact on Arab economic integration. The instability of the region due to the Arab-Israeli conflict and particularly the Arab defeat in 1967 made most Arab regimes looking inward and favouring the national (Qutri) planning over the regional or pan-Arab (Qawmi) one to solve their own problems.²⁹⁷ Moreover, as some schemes of integration were directly related to the conflict, they did not form a strategy of development and integration. For example, the Arab Fund for Social and Economic Development was formed after the defeat of 1967 to compensate for the Arab losses and reconstruct what was destroyed during the war.²⁹⁸ This factor made many Arab policies temporary and related to specific circumstances, which could not promote the process of economic integration in general.

Furthermore, Arabism, as Barnett observed, was a fundamental aspect that shaped Arab politics. However, it was more symbolic and based on rhetoric, especially when it came to Arab economic integration. In fact, analysing President Mubarak's call for the November 2001 Arab Summit in Cairo, Fanek wrote,

One would like to recall that the Agreement for Arab Economic Unity was signed in 1957. Its council took the collective decision to establish an Arab Common Market in 1964. Since then, several Arab economic meetings were held and many important decisions were made, but no one decision was

²⁹⁵ Mansour al Rawi, "Notes on the Obstacles to Arab Economic Integration", *Arab Affairs*, in Arabic, No. 83, September 1995, p. 83.

²⁹⁶ Khalaf Khalaf al Chazili, "International Changes and Challenges to Arab Joint Action: A Reading in the Arab Development Reality", *Arab Affairs*, in Arabic, No 3, September 1995, p. 90.

²⁹⁷ Jamal Amin, "The Arab Economy on the Verge of the Twenty First Century", *Arab Affairs*, in Arabic, No. 101, March 2000, p. 178. Also refer to Abdul Fatah al Rashdan, p. 24.

²⁹⁸ Mansour al Rawi, pp. 81-2.

actually implemented. The question is whether we are now in the process of making more economic decisions for media purposes and domestic consumption, or else a new Arab political will is emerging, to adopt sound national policies which serve the best interests of the Arab economies through meaningful integration?²⁹⁹

The most important factor that hindered the role of the League was directly related to the absence of political will to push economic integration further. Arab states abstained from implementing resolutions and they even refrained from paying their dues to keep the League functioning properly at the minimum. El Solh wrote,

The tardiness of some, or most, of the Arab states in remitting monies committed to the League is a simple and primary example of their refusal to implement the decisions which this institution takes, or one of the manifestations of the real problem from which the Arab League suffers. This is the most obvious, as well as, the most critical and sensitive problem in joint Arab actions. The best treaties, regulations and administrative structures will be of no use to the League if the member states refrain from implementing its decisions.³⁰⁰

Nevertheless, there was no one state or organisational body that could take the initiative and persuade member states to implement all resolutions endorsed or at least pay their dues regularly. Actually, the issue of political will reflected the basic predicament that obstructed any success in the development of Arab economic integration.

5.4.3 Economic constraints to Arab economic integration

Different economic factors slowed down or obstructed the process of economic integration advocated by the League. First, the production structure in most Arab countries was not well developed and diversified. As a result, most states adopted rigid

²⁹⁹ Fahed Fanek, "What Economic Summit in November?", *Jordan Times*, Monday 30 April, 2001. Refer to www.jordantimes.com

³⁰⁰ Raghid el Solh, p. 83.

protective strategies by increasing quantitative and qualitative trade barriers as precautionary measures to protect their ailing productive sectors. Grissa noted,

Excessive protection imposed in order to enhance the survival of newly born industries constituted, therefore, another major obstacle to the promotion of market integration between these countries. Furthermore, the relative narrow markets of these countries were often used as a pretext to the establishment of monopolies, generally of states' enterprises, that had the tendency of becoming havens for privileged excessive employment and growing sources of loss for the budget.³⁰¹

However, not only trade barriers hindered the development of inter-Arab trade, but also the structure of production and its lack of specialisation played a major obstacle. Moreover, sufficient efforts were not invested to enhance regional specialisation in production.³⁰² The major weakness was that all Arab agreements and treaties did not take such factors into consideration and they regarded regional integration as a tariff issue that could only be boosted by elimination of trade barriers. Al Munziri considered that "economic integration in the Arab World is not a tariff issue. It has to be linked directly to the process of economic development."³⁰³ Economic integration might enhance development that vice versa promotes integration.³⁰⁴ As a result, he added, all plans adopted by the AEUC failed.

Currently, without linking integration to the course of economic development, any increase in regional trade would not necessarily be beneficial to member states since it would not lead automatically to economic development. Consequently, al Munziri assumed that Arab economic integration should follow two directions: the first one is to relate economic integration to development, and a highly facilitating regional trade attempt should not occur before developing the means of production, so that an increase in production would be possible.³⁰⁵ The second direction is to adopt regional planning for the whole Arab World.³⁰⁶

³⁰¹ Abdessatar Grissa, p. 7.

³⁰² Sulaiman al Munziri, p. 98.

³⁰³ Ibid, p. 97.

³⁰⁴ Refer to the dynamic effects of the customs union in Chapter Three.

³⁰⁵ The benefits of integration would be generated from an increase in the production of the lower-cost commodities that replace the production of the higher-cost ones.

³⁰⁶ Sulaiman al Munziri, p. 99.



Secondly, the economic similarity of Arab economies and their lack of complementarities were considered serious obstacles to promoting regional transactions. The flow of goods and capital remained relatively low, which was itself an obstacle to initiate integration. Roberts wrote,

In seeking greater economic integration, the twenty-two members of the Arab League have to acknowledge the fact that they start from a very different baseline than did the original founding members of the European Community. In general, any group of Arab countries seeking to form the nucleus of an Arab Customs Union must confront the fact that, whereas the founder members of the EU economies that were already engaged in considerable volumes of trade with each other - and in great part depended on that trade for key imports required to keep the economy running, or for exports with which to pay for those imports - there is no such complementarity in the Arab World.³⁰⁷

Moreover, commodities produced in the Arab World were not sufficient to keep local economies running, and they were not competitive enough to reach the international and regional markets. Therefore, most Arab states kept importing industrial and necessary goods from the more advanced countries.

Thirdly, integration could not go further between Arab countries due to major differences in their economic development and their economies in general; where some Arab states controlled most economic activities, others observed much more economic openness.³⁰⁸

Finally, the lack of accurate information and data about different aspects of economic activities and economic integration in general affected the regional planning processes. This is why most economic integration plans were not realistic, and they did not consider the basic facts and reality of the Arab economies.³⁰⁹

The LAS lacked the autonomy and the necessary authority to play a leading role in economic integration. Moreover, it was functioning in a highly unaccommodating environment at both the political and economic levels. As a result, its achievement was

³⁰⁷ John M. Roberts, p. 92.

³⁰⁸ Mansour al Rawi, pp. 78-9.

³⁰⁹ Ibid., p. 82.

modest in promoting economic and political integration in the Arab World and its role was never acclaimed satisfactory.

5.5 Conclusion

There is a widespread and strong conviction among the Arab populace that the LAS failed to achieve any substantial progress in promoting Arab integration. Also, there is a certainty that it was not able to set forth any realistic plan for Arab unity. The League could not achieve such an idealistic objective, not because of institutional and structural weaknesses, but because in the first place, it was initiated by the British; a stamp that could not free the League from being prejudged as a regional institution created to serve the interests of colonial powers.

Ironically, the League, representing all Arab states with similar language, religion and culture, and being the sole regional organisation worldwide having such characteristics, could not bring Arab states and societies further together. In contrast, other regional schemes such as the European Union, with member states having different languages and a long history of hatred and wars have gone much further in creating a new peaceful and prosperous regional setting. The fact is that the political will to stimulate the League was absent. Omran³¹⁰ argued “the major factor that obstructed the success of any Arab joint action initiative was the lack of will of member states”. There was a definite reluctance to authorise the League to lead any programme of political and economic integration since Arab regimes and leaders had eternal fears of power sharing.

Moreover, the League was never the motherland of Arabism, which would be employed and preached by its different organs, since Arabism as a political culture developed in a conflictual political environment and outside any institutional framework. It was interpreted differently by different Arabs and on different occasions, unlike Europeanism that was constructed to be the political culture of the EU. However, Arabs are still divided even in assessing the performance of the League. For some, it is useless and does not promise to achieve any form of integration even; for others, with its large number of resolutions and agreements still unimplemented, it is the realistic and only

³¹⁰ Interview with Mr. Adnan Omran, London, 4 July, 2001. Mr. Omran was the Minister of Information in Syria when the interview was held. In addition, previously, he was the Assistant General Secretary of the League of Arab States.

available symbol of solidarity since it was able to survive the complexities and crises of Arab politics.³¹¹ They still label it “the House of Arabs”.

³¹¹ Abdul Fatah al Rashdan, p. 7.

CHAPTER SIX

THE ATTRIBUTES OF THE INTER-ARAB TRADE FOCUSING ON THE ARAB MASHREQ

6.1 Introduction

Chapters four and five examined the performance of the League of Arab States and its role in regional integration. The focus in this chapter and the next two chapters will shift to the application of a transactionalist approach to study the impact of regional trade on integration in the Arab Mashreq.

The Arab Mashreq is delineated to include Egypt, Syria, Iraq, Jordan and Lebanon. This choice is justified by many considerations. First, the Arab Mashreq is a compact region with geographical proximity - except Egypt that became geographically separated from other Arab Mashreq states after the establishment of the state of Israel - and similar language, culture and religion. Secondly, this region witnessed a variety of integrational attempts at the political, economic and military levels; some of them are covered in due course throughout this chapter and the rest is reviewed in the next two chapters. Finally, since this chapter is a qualitative study applying a transactionalist approach and focusing on regional trade, a sub-region of the Arab World is considered satisfactory.³¹²

This chapter is divided into three sections. The first will review the transactionalist approach focusing on regional trade as an economic transaction in influencing integration. The next section will examine the regional efforts and agreements attempted from 1952 until 1998 by the Arab states to promote inter-Arab trade focusing on the Arab Mashreq. This section will exclusively review regional attempts instigated under

³¹² The term Arab World represents the twenty-two members of the League of Arab States. It is believed that it could be divided into three sub-regions; the Arab Mashreq including the states listed above, the Gulf including all the states of the Arab Peninsula, except Iraq, and the Arab Maghreb including the Arab States of North Africa. A similar categorisation, as used in this Chapter, was employed by Hassan al-Atrash and Tarik Yussef in their article "Intra-Arab Trade: is it too Little?", Washington D.C., International Monetary Fund, 2000, p. 3. It is also believe that the Nile Valley including Egypt and Sudan can be considered as a separate sub-region.

the auspices of the LAS. The last section will study the different economic, political, structural and physical barriers that influenced inter-Arab trade.

6.2 The transactionalist approach to integration

Unlike the neo-functionalist approach to integration, which stresses the role of supranational institutions and the elite's attitudes during the process of integration, the transactionalist approach mainly focuses on transactions flow between the units, whether they are states or individuals, during their attempts to integrate. This section aims at reviewing the significance of transactions including foreign trade in the transactional thinking.

The importance of transactions for transactionalists emanates from their own definition of integration. Deutsch defines integration as "a relationship among units in which they are mutually interdependent and jointly produce system properties which they would separately lack."³¹³ Additionally, transactionalists consider that interdependence ought to be measured by transaction flows between different units.³¹⁴ Transactions form the backdrop of their analysis, and foreign trade is taken as the most significant economic transaction. Puchala proclaims

By convention, transactions analysts have tended to use foreign trade data to index ranges of economic transactions, international mail deliveries and newspaper and periodical circulation to index information exchange or social communication, educational exchange to index cultural interaction, and diplomatic representation and activity to index political transaction.³¹⁵

Transactions are studied as factors affecting the building up of a sense of community among different populations. Hodges states "integration, according to transactionalists, is a condition in which the population of a given region have attained as a result of their transactions with each other a sense of community."³¹⁶

³¹³ Karl W. Deutsch, *The Analysis of International Relations*, p. 212.

³¹⁴ Michael Hodges, pp. 244-5.

³¹⁵ Donald Puchala, p. 129.

³¹⁶ Michael Hodges, p. 244.

Transactions are considered background conditions that determine how successful integration will be.³¹⁷ They must not be studied only statically; but also their changes over a considerable period of time must be examined.³¹⁸ Therefore, this study, as chapters seven and eight show, will be extended over a relatively long period of time in order to observe changes in the regional foreign trade of the Arab Mashreq.

Transactions play a critical role in creating mutual relevance among integrating units. Deutsch confirms,

Mutual relevance among units is indicated by the relative volume and weight of transactions among them (the units), such as trade, travel, and mail and other communications; by the extent to which such transactions exceed the levels which could be expected from mere chance and the size of the participating units.³¹⁹

The transactionalist approach generates less efficient results when applied to developing countries such as the Arab states because of three main reasons at least. First, this approach is more relevant to the developed states and societies where transactions play a greater role in shaping the political and economic relations between states. Secondly, this approach neglects high politics such as war and peace, alliances, balance of power, security and stability, whereas the Arab states including the Arab Mashreq states are part of a highly unstable and insecure regional system that has always been influenced by high politics. In fact, Ehteshami and Hinnebusch defined the main features of the Middle East regional system, in which the Arab states exist as follows;

1) High levels of international penetration, dependency and consequent weakness of the regional system's legitimacy, 2) the weakness and vulnerability of states to transstate regional penetration because of the poor correspondence between state and political identity, and 3) intense insecurity, militarization and vulnerability to imbalances of power.³²⁰

³¹⁷ Karl W. Deutsch, *The Analysis of International Relations*, p. 271.

³¹⁸ Michael Hodges, p. 244-5.

³¹⁹ Karl Deutsch, *The Analysis of International Relations*, p. 271.

³²⁰ Anoushiravan Ehteshami and Raymond A. Hinnebusch, *Syria and Iran: Middle Powers in a Penetrated Regional System*, London, Routledge, 1997, p. 15.

Thirdly, transactions data in general and economic ones in particular, such as foreign trade data, are not determined and calculated accurately in developing states. The reasons are mainly related to the lack of specialised and technical bodies and personnel that regulate these data. Moreover, some Arab regimes monitor and censor these data for domestic and international purposes. Domestically, regimes manipulate them to acclaim their economic policies, and regionally, they manoeuvre them to get more economic and financial support from the international financial institutions.

To summarise, the examination of transaction flows over a relatively long period of time constitutes a major prop in the methodology of transactionalists. Foreign trade forms a measurable economic factor in the transaction flows. Therefore, the application of a transactionalist methodology to the Arab Mashreq region is done by calculating the regional trade and examining its effect, as a background condition, on integration. Also, it is important to note that since transactionalists do not require or observe the formation of an end stage whilst studying integration, it would be sufficient to examine the influence of trade on the units' behaviour (i.e. on the states of Arab Mashreq), which will be based mainly on their regional foreign policies.

Before moving on to a specific inspection of inter-Mashreq trade and its impact on integration in chapters seven and eight respectively, it is necessary to review generally in the next section previous regional efforts attempted by the Arab states to promote inter-Arab trade, and examine the political, economic and structural barriers that obstructed inter-Arab regional trade.

6.3 The regional attempts and agreements to promote inter-Arab trade

Before examining trade patterns from 1952 until 1998 and their impacts on integration in the Arab Mashreq in the next two chapters, it is crucial to note that the Arab modern states system and especially the Arab Mashreq region inherited some major restrictions to trade. The partition of the Arab World by the colonial powers into different independent states,³²¹ the occupation of Palestine³²² and the consequent geographical

³²¹ Historically, France and Britain created new economic and political frontiers in the region after the Sikes-Picot Agreement in 1916 and the resulting division of the Arab Mashreq. Consequently, the newly formed states structured their trade relations with the colonial centres away from each other. Refer to Roger Owen, "Inter-Arab Economic Relations during the Twentieth Century: World Market vs. Regional Market", p. 217.

³²² Alfred G. Musrey, p. 67.

partition of the Arab land by the creation of the state of Israel, the collapse of the Syrian-Lebanese customs union in 1950 and the resulting trade barriers in the newly independent states,³²³ are all considered inherited restrictions to trade in the region.

The proportion of inter-Arab regional trade to the total Arab trade is around 9 per cent,³²⁴ which is a very small ratio compared to that of the European Union that rises above 60 per cent. Hence, this section will review major regional attempts³²⁵ to promote inter-Arab trade focusing on the Arab Mashreq trade, before trying in the next section to explain why inter-Arab trade was relatively minimal by pointing up some political, economic and structural barriers to trade.

The major attempts achieved by Arab states to facilitate and increase inter-Arab trade at the regional level started with the ratification of the Agreements on Facilitating Transit and Trade in 1953. Then, the Arab Common Market was established in 1964 as a product of the Arab Economic Unity Agreement.³²⁶ Later on, in 1980 the Agreement for Promotion and Development of Trade among Arab Countries was ratified, which was finally culminated by the establishment of the Greater Arab Free Trade Area³²⁷ as a resolution of the 1996 Arab Summit in Cairo. GAFTA was put into effect as of 1 January, 1998. All these attempts were accomplished under the auspices of the LAS.

During the 1950s and early 1960s two sources of trade agreements shaped the Arab trade relations and mainly the Arab Mashreq trade.³²⁸ The first originated from the bilateral trade agreements between the Arab Mashreq states, and the second derived from the conventions ratified by the Arab League members, mainly the Trade and Payment Convention of 1953.

Under the trade conventions of 1953,³²⁹ products of agricultural and animal origins, in addition to some mineral products were exempted from import duties. However, most industrial products, especially those produced in the contracting partners enjoyed

³²³ After independence the customs union between Syria and Lebanon faced many strains and it was dissolved in 1950.

³²⁴ Arab Monetary Fund, *The Arab Joint Economic Report*, in Arabic, Abu Dhabi, AMF, 1999, p. 3.

³²⁵ Since the focus of the study is on regional integration, bilateral attempts are neglected although they played a substantive role in increasing regional trade.

³²⁶ This agreement was favoured by Egypt and it was drafted in Bhamdoun - Lebanon, in 1956. However, it only came into force in 1964 when it was ratified by Egypt, Iraq, Syria, Jordan and Kuwait.

³²⁷ J. Tahir, "Free Economic Zones in Arab Countries in the Context of Arab Free Trade Areas and WTO Arrangements: Trends and Future Prospects", a paper submitted to a conference on "New Economic Developments and their Impacts on Arab Economies", Tunis, 3-5 June 1998, p. 6.

³²⁸ All the Arab Mashreq countries were the founders of the LAS in 1945 and they were almost independent at that time; whereas most other Arab States were still under colonial domination.

³²⁹ Since the bilateral agreements are beyond the scope of the study.

reduced import duties. The participants were entitled to the status of the Most Favoured Nation in issuing import and export licences. However, political rivalries among Arab states, especially during the rule of Abdul Karim Quassim of Iraq from 1958 until 1963, hindered the application of the provisions of these agreements. In fact, Quassim's regime applied strong restrictions on agricultural and industrial products. On the other hand, Syria, Lebanon and Jordan constituted an FTA in most agricultural products while they were not successful in extending it to include industrial ones.³³⁰ Numerous bilateral trade agreements had facilitated trade between these three countries.

Such efforts to promote inter-Arab trade could not last for an extended period and seemed to achieve little success for two reasons³³¹ at least: first, by reducing tariffs, these agreements led to a sharp decrease in state revenues, which could not be borne by newly established and independent states, such as Jordan, Syria, Lebanon and to a limited extent Iraq. Secondly, by decreasing protection, these agreements threatened their infant industries, which were not at that time only economic assets, but also national symbols.

Ghantus argued that the agreement for facilitating trade exchanges and regulating trade transit showed "practical significance in general to the countries which at that time had no exchange control and other non-tariff barriers (i.e. Lebanon, Jordan, Saudi Arabia, and Syria)."³³² However, after the emergence of protectionist measures adopted by socialist policies, first in Egypt and later on in Syria and Iraq, the non-tariff barriers became "more significant in determining the pattern and direction of trade."³³³

Musrey considered that during the 1950s and early 1960s Arab socialism was a major factor that impeded trade relations. This was more than a restrictive step; it was a whole vision of planning. In fact, he wrote

The trade control systems of most of the Arab countries became more comprehensive and restrictive during the 1950s and early 1960s as many of these countries continue to experience balance of payments difficulties and to furnish protection to domestic

³³⁰ Refer to Alfred G. Musrey, pp. 75-106.

³³¹ Roger Owen, "Inter-Arab Economic Relations during the Twentieth Century: World Market vs. Regional Market", p. 222.

³³² Elias T. Ghantus, "Regional Industrial Integration: The Case of the Arab Middle East", a thesis submitted for the degree of Doctor of Philosophy at the University of Durham, October 1978, p. 95.

³³³ Ibid., p. 96.

industry and agriculture. Rather broad economic development programs, with emphasis on industrialization were taken by some of these countries, and quantitative restrictions came to be regarded as an essential part of such programs. However, Arab socialism had become or was becoming an additional impediment to trade.³³⁴

The second regional attempt to facilitate inter-Arab trade occurred in 1964 with the creation of the ACM, as provided for by the Arab Economic Unity Agreement, which was endorsed by the Economic Council of the League in 1957. In June 1962, five Arab states: Egypt, Syria, Jordan, Morocco and Kuwait, signed the Economic Unity Agreement. Iraq and Yemen joined it later in 1963 after the overthrow of Quassim's regime in Iraq and the dissolution of the Imamate in Yemen. The Agreement came into force during the summer of 1964 after all instruments of ratification were deposited. It aimed at achieving a total economic unity between the contracting states by removing all barriers against the movement of goods, labour and capital. It also called for the coordination of all economic and social policies among members to achieve the claimed objectives. Article I of the Agreement provided for the following freedoms:³³⁵

- (1) freedom of movement of individuals and capitals;
- (2) freedom to exchange domestic and foreign goods;
- (3) freedom of residence, work, employment, and practice of economic activity;
- (4) freedom of transport, transit and the use of means of transport, seaports and civil airports; and,
- (5) freedom of ownership, bequeath and inheritance.

Moreover, economic integration was to start with the formation of a customs union as called for by the Agreement, and then, more integration could proceed by coordinating financial and monetary policies to reach a single currency. The AEUC was established to monitor the implementation of the agreement, and it was based in Cairo.³³⁶

The creation of the ACM was the rewarding step of the AEUC. However, only Egypt, Syria, Iraq, and Jordan joined the ACM with special and individual reservations.

³³⁴ Alfred Musrey, p. 76.

³³⁵ The full text of the Agreement is found in Appendix "B" of this thesis.

³³⁶ Alfred Musrey, pp. 108-9.

The AEUC adopted a resolution that provided for the elimination of all customs duties and other barriers that obstructed regional trade between members to assure a free movement of commodities by 1 January, 1974. Musrey summarised the provisions of the resolution as follows:

Agricultural, animal, and mineral products contained in the amended schedule of such products annexed to the Arab League trade convention were to be or continued to be exempt from import duties and taxes. The duties and taxes on such products not contained in that schedule were to be reduced annually by 20 per cent of the initial tariff rates, with the first reduction taking effect on January 1, 1965. Likewise, the export and import quantitative restrictions imposed on agricultural, animal, and mineral products were to be removed in five annual stages, with the first stage taking effect as of the forgoing date.³³⁷

The ACM arrangement was based on preceding inadequately implemented agreements. It, therefore, carried an inept legacy in encouraging inter-regional trade. It promoted to some extent trade relations between Egypt and Iraq. However, it was more politically inspired. Wilson argued, “the Arab Common Market was created out of the ruins of the United Arab Republic³³⁸ when Syria and Egypt split in 1961. Like the earlier union Nasser’s common market venture never became an economic force, though both Jordan and Iraq did reap some benefits.”³³⁹

The establishment of the ACM raised substantially the trade between Iraq and Egypt. However, Musrey³⁴⁰ considered this increase a reflection of closer political and economic relations after the removal of Quassim’s regime in 1963. On the other hand, trade between Syria and Iraq dropped dramatically due to strained political relations. In fact, in 1966 major exports from Syria to Iraq consisted of tomatoes, seeds, apricot and textiles, and the imports were mainly crude petroleum, gas oil and dates. Moreover, the bilateral trade of Egypt with both Syria and Jordan remained insignificant in size during the years 1965 and 1966.

³³⁷ Ibid., pp. 109-10.

³³⁸ The United Arab Republic was formed out of the merger of Egypt and Syria in 1958, but it was disintegrated later in 1961.

³³⁹ Rodney Wilson, *Economic Development in the Middle East*, London, Routledge, 1995, p. 4.

³⁴⁰ Alfred Musrey, pp. 112-5.

At the beginning of 1968, the ACM became redundant. The political relations between the Arab Mashreq states suffered from major setbacks with exception of the Iraqi-Egyptian relations, which showed some substantial improvement. Moreover, the ACM remained stagnant during the 1970s and 1980s as McDermott statistically showed. He wrote,

When it [came] to inter-Arab trade, the stagnancy of ACM operations [was] more striking. For where exports [were] involved, between 1970 and 1985, the ACM share fell sharply from 12.8 to 4.7%. These mirror the import performance. The ACM share fell from 13.7 to 5.3%. Over fifteen years, total ACM trade rose only from \$4.4 billion to \$28.3 billion - just over a six fold increase.³⁴¹

In addition, the level of economic development of most Arab countries during that period had significantly reduced inter-Arab trade. During their development, most Arab states became more dependent on outside importations, especially on industrial and technological commodities imported from more developed states. At the top of these sources came the European Union.³⁴²

As a matter of fact, the ACM could not even reach the level of a proper CU.³⁴³ It was no more than a "putative FTA"³⁴⁴ since partners found difficulties in agreeing on a common external tariff. Consequently, national commodities did not simply circulate across borders since monetary, administrative and quantitative restrictions were not easy to be abolished or even reduced.³⁴⁵ Wilson confirmed that although tariffs were eliminated after 1971 between the members of the ACM, qualitative restrictions such as quotas and non-convertibility of national currencies persisted. These conditions explained further the weak impact of the ACM arrangement on inter-regional trade.³⁴⁶

³⁴¹ Anthony McDermott, p. 6.

³⁴² Abdel Karim Jaber Chanjar, "The Prospects of Arab Foreign Trade in Light of Regional Trading Blocs", *Arab Affairs*, in Arabic, No. 85, March 1996, p. 123.

³⁴³ For more detail refer to Chapter 3.

³⁴⁴ Roger Owen, "Inter-Arab Economic Relations during the Twentieth Century", p. 222-3

³⁴⁵ Anthony McDermott, p. 5.

³⁴⁶ Rodney Wilson, "The Arab Common Market and Inter-Arab Trade", Economic Research Paper, No. 4, Durham, IMEIS, 1981, p. 2.

In conclusion, the ACM was not in line with the economic rationale of the majority of member states during the period of its establishment; a rationale of central economic planning that gave the state the task of managing regional and international trade.

The regional attempts of the 1980s and the 1990s³⁴⁷ were more limited in scope, and the Arab Mashreq states were less involved. In fact, Syria, Lebanon and Egypt did not attend the 11th Arab Summit in Amman in 1980 because of deep regional political conflicts that divided the Arab Mashreq along two rival political blocs: the first was led by Iraq and it comprised Jordan and the PLO. The second bloc involved Syria that dragged Lebanon. These political divisions will be elaborated in the coming two chapters. The 11th Summit issued the Pan-Arab Charter that called for the promotion of inter-Arab trade.³⁴⁸ However, its impact on the Arab Mashreq was negligible because of regional political setbacks that affected the region during that period. To reiterate, Egypt was absent from the Arab system, Syria and Iraq had blocked all types of bilateral relations, and Lebanon was in a civil war and a substantive part of its territories was occupied by Israel. Only Iraq and Jordan were in good political terms and if trade relations increased, they did so because of bilateral attempts.

Moreover, in the late 1980s, the Arab Cooperation Council³⁴⁹ (ACC) was established. It included Iraq, Egypt, Jordan and North Yemen. It was a revival of the ACM with a limited economic agenda. Wilson believed that the ACC “only provided for joint industrial fairs in each of the capitals, a gradual reduction of some tariffs, and preferences for labour from the signatory states when permits were issued”.³⁵⁰ However, the whole arrangement was distorted after the Iraqi invasion of Kuwait in the summer of 1990, and its repercussions on regional trade became obsolete.³⁵¹

In addition to the political conditions that affected trade relations, inter-regional trade remained limited during the 1980s because of economic and physical conditions, such as the lack of diversification of national products³⁵² and the weak and underdeveloped means of communications between the Arab countries. Alternatively, inter-Arab

³⁴⁷ GAFTA was launched in 1998. However, its impact will not be examined since 1998 is the end year of the study.

³⁴⁸ Refer to Article 9 of the Pan Arab Charter in Information Directorate of the League of Arab States, *The Charter of the League of Arab States and its Main Regulations*, p. 55.

³⁴⁹ ACC is considered in this economic review since it comprises three Arab Mashreq states.

³⁵⁰ Rodney Wilson, *Economic Development in the Middle East*, p. 170.

³⁵¹ Egypt joined the coalition led by the United States but Jordan sided with Iraq.

³⁵² Yussef Sayegh, “Arab Economic Integration: The Poor Harvest of the 1980s” in Michael Hudson, 1999, p. 236.

regional trade benefited more from bilateral arrangements and from internal liberalisation programmes.

Reflecting on the bilateral arrangements focusing on the earlier post-war period, Musrey wrote, “the attempts that were made during the early post-war period to increase inter-Arab trade were made within a bilateral framework. Hardly, any significant measures was adopted or implemented by the Arab countries to increase multilateral trade within the region.”³⁵³

In addition, Wilson considered that the liberalisation programmes implemented on the national level generated much greater effects on facilitating inter-Arab regional trade than any other institutional or multilateral arrangements. He stated,

The move towards payments liberalisation in Egypt, Syria and Jordan and the new emphasis on the market determining the exchange rates have arguably done more to promote Arab trade than all the over ambitious institution-building by governments in the past. It [was] through liberalisation that the climate [was] created for Arab merchants to get on with their trading.³⁵⁴

The next section will examine the most important barriers to inter-Arab regional trade attempting to explain further why previous regional efforts did not succeed in promoting regional trade.

6.4 The barriers to inter-Arab trade

This section aims at examining different barriers to inter-Arab regional trade in general focusing on important factors that thwarted inter-Arab Mashreq trade in particular. The barriers to trade will be organised in three main headings. The first will examine the obstacles of economic origin. The second will examine the political obstacles. And the last heading will study the structural and physical barriers.

³⁵³ Alfred Musrey, p. 72.

³⁵⁴ Rodney Wilson, *Economic Development in the Middle East*, p. 173.

6.4.1 The economic barriers

Many economic factors were behind the consistent limitation of the inter-Arab regional trade. In general, these factors were the lack of complementarity of most Arab economies, the high tariffs and protectionist measures of states' economic policies, the shortages of convertible currencies, the economic policy of import substitution industrialisation (ISI), the differences in the level of industrialisation, and finally the differences in economic systems and the lack of economic rationale of almost all regional attempts to trade liberalisation.

The lack of complementarity of most Arab economies derived from the similarity in their productive sectors. It was always argued that Arab states produce either "oil or olive oil". In fact, the similarity of economic structures affected trade relations in a way which prevented the efficient exploitation of the comparative advantage between different economies. Similar commodities were competing instead of complementing each other since "Arab states produced roughly the same range of agricultural and industrial products."³⁵⁵ Accordingly, Owen reckoned that two major problems hindered inter-Arab trade: "one (was) the similar economic structures of the Arab states concerned and thus the lack of economic complementarities to exploit by way of greater trade. The other (was) the obvious lack of political will."³⁵⁶

The similarity of economic structures among Arab countries derived from the comparable development of Arab industries. This feature restricted trade between Arab states by reducing the range of exchange among them. Ghantus, accordingly, wrote

The parallel development of industry among the Arab countries in general, and the ACM countries in particular, [left] little scope for trade exchange in a static context and [rendered] market integration undesirable to the less efficient partner since it would no longer be in a position to protect its industries against imports from the more efficient partner.³⁵⁷

Moreover, al-Atrash and Yussef considered the lack of products complementarity as a "fundamental" barrier to trade. They wrote,

³⁵⁵ Roger Owen, *State, Power and Politics in the Making of the Middle East*, p. 77.

³⁵⁶ Roger Owen, "Inter-Arab Economic Relations during the Twentieth Century", p. 223.

³⁵⁷ Elias T. Ghantus, *Arab Industrial Integration: A Strategy for Development*, p. 68.

The lack of products complementarity has often been cited as an important factor hindering intra-Arab trade. The relative similarity of resource endowments among many countries in the region (e.g. oil, phosphates and agricultural products) argues against intra-regional trade since the region comparative advantage is in the same products. At the same time, the lack of diversified export base – primarily in manufactures – limits the opportunities for trade based on product liberalisation.³⁵⁸

Arab exports were limited to very few basic raw commodities as fuel oil accounted for more than 80 per cent on the average of total exports. Moreover, more than 70 per cent of Arab imports depended on manufactured products, transport equipments and other industrial commodities and textiles.³⁵⁹ Such import-export structure decreased regional interdependence substantially.

The most severe consequence of the lack of products complementarity was its lasting effect. This factor shaped the Arab economies to some extent since it influenced significantly the direction of the foreign trade of most Arab states. Whereas some obstacles to trade could have been overcome, at least theoretically, the lack of products complementarity hurdle was “irreversible”. While examining different factors that impeded inter-Arab regional trade, al-Atrash and Yussef confirmed

Some of these (trade obstacles) are policy related and, in theory, could be overcome – such as the high level of tariffs (and other) trade impediments in some of the Arab countries as well as political disputes – while others are not easily reversible – such as the lack of product complementarity and the difference in per capita income – which may encourage greater trade with outside of the region.³⁶⁰

Consequently, the lack of products complementarity hindered inter-Arab trade relations and diverted trade outside the region. Therefore, it led to creating new trade structures which were not in favour of inducing regional interdependence.

³⁵⁸ Hassan al-Atrash and Tarik Yussef, p. 9.

³⁵⁹ Abdel Karim Jaber Chanjar, p. 125.

³⁶⁰ Hassan al-Atrash and Tarik Yussef, p. 3.

In addition to the lack of products complementarity obstacle, high levels of tariffs obstructed the flow of commodities between Arab states. The high tariff arrangements constituted the principal aspect of protectionist programmes in the Arab World. Tariffs were raised to protect infant industry, and besides they were considered as substantial state revenues, especially in the countries of the Arab Mashreq. Consequently, they formed major obstacles to inter-Arab Mashreq trade in spite of some attempts set up to promote inter-regional trade. Reflecting on the importance of tariffs in generating income for most Arab countries, Sirageldin wrote,

Tariffs in the Arab countries, with the exception of GCC, account for a sizeable share of government revenue - about 20 per cent, compared to less than 6 per cent in Turkey, Indonesia, Republic of Korea, Malaysia and Mexico. Furthermore, effective rates of protection exceed nominal by a large margin. This is a result of additional taxes, duties, and fees such as import licensing fee, taxes earmarked for universities, municipalities, custom services, and a statistical tax among others.³⁶¹

Tariffs were high and diversified, especially in the ACM countries, since they compensated for direct taxes that could not be imposed in these states due to their low per capita income.³⁶² In fact, the high direct taxes would constitute unbearable burdens on the large impoverished population in most Arab Mashreq states.

Furthermore, the shortages of convertible currencies in most Arab countries had hindered regional trade. Most Arab states faced such shortages mainly because of the protectionist reform programmes pursued since the early 1950s. The convertible currencies were lacking to establish strong industrial bases in all the ACM countries but to a lesser extent in Iraq during the 1950s and the 1960s. These shortages affected inter-regional trade in two ways mainly. First, since all imports were to be purchased in convertible currencies, the ACM countries always preferred to allocate most of their convertible currencies to purchase necessary raw materials and essential commodities for industrialisation. Consequently, the budget available to purchase and import goods

³⁶¹ Ismail Sirageldin, "Globalization, Regionalisation, and Recent Trade Agreements: Impact on Arab Economies: Rapid Exogenous Change – Slow Endogenous Response", Working Paper 9817, Cairo, – Economic Research Forum for the Arab Countries, Iran and Turkey (ERF), 1998, p. 18.

³⁶² Refer to Alfred Musrey, pp. 126- 8

from the region decreased. Therefore, fewer goods were traded. Secondly, convertible currencies were mostly earmarked to buy essential goods; hence, additional shortages of convertible currencies hindered the expansion of the industrial bases. Accordingly, fewer commodities were produced and hence traded regionally. In addition to these two main factors, the shortages of convertible currencies forced the governments to tighten control on payments and capital movement.³⁶³ Such protectionist and restrictive measures had great impact on investment and regional trade since it slowed down the productive allocation of resources that could help boosting the regional trade by exploiting the comparative advantage in the region.

The import-substituting industrialisation (ISI) was also one of the major causes behind the shortages of convertible currencies and the increased tariff levels. ISI acted as a potent obstacle to regional trade in the way it was implemented in most Arab states.

ISI was a strategy adopted by most developing countries to escape dependency on the industrialised world. It looked to be an optimistic programme to increase independence at the economic level. Richards and Waterbury defined its major aim as follows:

It is designed to move economies traditionally dependent on the export of primary commodities and raw materials to an industrial footing. The new industries are expected both to produce goods that were previously imported (everything from textiles and shoes to fertilizers and refined sugars) *and* process domestic raw materials (e.g., cotton, minerals, sugarcane, petroleum). The result would be economic diversification and reduced dependency on volatile external markets for primary products and on high-priced imports.³⁶⁴

Consequently, they believed that the newly established national industries must be protected against foreign competition. And the most effective protectionist measure would be the inception of high tariffs.

The ISI strategy was implemented in most Arab Mashreq states except Jordan and Lebanon. However, it suffered major setbacks where it was implemented as was the

³⁶³ Ibid., pp. 122-3.

³⁶⁴ Alan Richards and John Waterbury, *A Political Economy of the Middle East*, Oxford, Westview Press, 1998, p. 25.

case in most Middle Eastern states. Reflecting on the implementation of ISI in the Middle East, Richards and Waterbury wrote

The setbacks in the ISI strategy stemmed primarily from the degree of protection granted to the infant industries and the promotion of public resources devoted to them at the expense of the agricultural sector. The agricultural sector was taxed through various devices to provide an investable surplus for the new industrial undertakings, while the foreign exchange earned from agricultural exports went to pay for the technologies, capital goods, and raw materials required by the industrial sector. The price paid for these income transfers was frequently slow or non-existent agricultural growth.³⁶⁵

Accordingly, the ISI implementation obstructed inter-Arab trade relations with its high degree of protectionist measures, especially high tariffs, and it led to shortages in convertible currencies. In summary, “the broadly restrictive stance of the region reflected in part the legacy of inward-oriented policies pursued in the 1960s and 1970s, when many countries in the region adopted development strategies aimed at import substitution and self-sufficiency goals that usually involved the imposition of extensive barriers to trade.”³⁶⁶

Owen not only believed that ISI strategy impeded trade relations between Arab states, but he also considered its impact as an obstacle to inter-Arab regional trade was substantial. He noted,

The implication of such a strategy (ISI) for trade [was] important. Export received low priority, foreign exchange was scarce, and what little there was reserved for essential imports of capital goods and raw materials. In addition, for the Arabs, as in most other cases, periodic balance-of-payments crises led to reduced convertibility for the local currency and an increasing number of controls that, on occasion, left them with no option but to try to obtain what they needed by barter. Meanwhile, the people chosen to manage the increasingly state-owned industries

³⁶⁵ Ibid., pp. 26-7.

³⁶⁶ Hassan al-Atrash and Tarik Youssef, p. 9.

possessed few skills and incentives to market their goods abroad. In these circumstances, freer regional trade would become practical only when the industrial base [was] strong and diverse, and flexible enough to survive, and even prosper, in the competition conditions of the outside world.³⁶⁷

Another obstacle to inter-Arab regional trade was the difference of the levels of industrialisation between Arab states. In fact, when Arab states started their ambitious initiatives to promote economic integration in general and trade in particular, especially in the 1950s and 1960s and mainly during the establishment of ACM, they were faced by large differences in the levels of industrialisation. Effectively, Egypt³⁶⁸ was much more industrialised than Syria and Lebanon. Syria and Lebanon were also more industrialised than Iraq. Jordan was the least industrialised.

The difference of the levels of industrialisation hindered inter-regional trade between the Arab Mashreq countries for two reasons mainly: first, the production bases in the less developed industries were less specialised, therefore, there were fewer commodities to trade or even to barter regionally. Secondly, related to the previous factor, states with the weaker industrial bases were not enthusiastic to adjust to any regional economic setting that could threaten their infant industrial bases. For those reasons, initially Nasser's call for establishing Economic Unity between Arab states was rejected first in 1961. But later on, when Quassim's regime was removed in Iraq in 1963 and the Nasser-affiliated regimes took power in Syria and Iraq in the same year, the political rationale led to the ratification of the Arab Economic Unity Agreement.³⁶⁹

Furthermore, the difference in economic systems was another factor that acted as an obstacle to inter-Arab regional trade. Musrey argued that the countries of the Arab Mashreq states had diverse economic systems during the 1960s. Effectively during that period, Egypt and Syria and to a lesser extent Iraq had adopted a state command economy or one ostensibly known as Arab socialism. On the contrary, the states of Lebanon and Jordan showed much less involvement in directing economic affairs.

Arab socialism hindered regional trade since free enterprises and private production were prohibited to a large extent. There were very few private companies and agencies

³⁶⁷ Roger Owen, "Inter-Arab Economic Relations during the Twentieth Century: World Market vs. Regional Market", p. 217.

³⁶⁸ It was named the United Arab Republic during that period.

³⁶⁹ Alfred Musrey, pp. 119-121.

operating to boost exports and trade in general. Moreover, Egypt, Syria and Iraq had different social policies and accordingly different markets than Lebanon and Jordan. The high degree of protectionism rendered the accessibility of these markets very unlikely and difficult.³⁷⁰

Finally, Arab states were suspicious about how much benefit they would get from promoting regional trade. Also they were doubtful whether to look inward or more outward to some other non-Arab regional and international partners. It was always the “national interest” that came first, and this made Arab states more protectionist. Shafik reckoned that “attempts to promote integration failed largely because there was no willingness to subsume national interests to regional ones. Protectionist interests in all countries often secured exemptions to more open trading arrangements that undermined regional integration efforts.”³⁷¹

6.4.2 The political barriers

The political barriers emanated from the characteristics of inter-Arab politics and inter-Arab relations in general. The political crises and to some extent the political polarisation in the region have weakened regional integration. (The impact of Arab political crises will be covered more in chapter seven). Arab states were in constant competition and rivalry. They were pre-empting to protect themselves from other Arab states’ interference in their own affairs, or they were bidding to interfere in other states’ affairs. Consequently, such unstable political relations shaped trade relations between Arab states. The most striking example was the unbalanced political relations between Syria and Iraq, which had extensive suitable conditions for integration. However, their conflicts and their wobbly political and diplomatic relations over a long period of time starting from the early 1960s - since they established the ACM arrangement - until the late 1980s had shaped trade relations to reduce bilateral trade to nil during the 1980s.

The international political alliances fashioned as well the trade patterns of many Arab states. In fact, many Arab states had extensively traded with allied superpowers or allied political blocs. As a result, this pattern left small room for trading with other Arab neighbours. The trade patterns with superpowers were not based on comparative

³⁷⁰ For more on the subject refer to Alfred Musrey, pp. 116-8.

³⁷¹ Nemat Shafik, “Labour Migration and Economic Integration in the Middle East” in Michael Hudson, p. 281.

advantage or any practical scheme of integration, but it reflected more the strategic and political affiliation of the alliance. This pattern was mirrored in the extensive trade relations of Syria with the ex-Soviet Bloc and of Egypt before Camp David. Also, this pattern is still noticeable in the trade relations of Egypt and Jordan with the United States. Shafic clearly noted that,

Political alliances have added another dimension to regional trade patterns. The composition of Egypt's trade during the late 1960s and early 1970s and Syria's trade until recently were dominated by the Eastern Bloc. Extensive trade with Eastern Europe and the former Soviet Union was a reflection of political alliances, not market incentives. Similarly, the United States has emerged as one of Egypt's major trading partners in the 1980s, not because of comparative advantage, but because American aid is tied to U.S. source restrictions.³⁷²

Since trade relations were not based on comparative advantage or any economic incentive, such "partnership" would harm the domestic productive structure of the Arab economies allied with a superpower, especially when alliances were shifting. This feature was illustrated in Egypt in the mid 1970s when it moved to the US camp.

6.4.3 The structural and physical barriers

The structural barriers derived from the levels of development and economic growth of the Arab countries and their dependence on highly industrialised states. These features delayed the growth of regional trade in the Arab World.

Trade in most developing countries was based on importing industrial and technological goods from the developed world and exporting in return primary commodities, mainly of agricultural and mineral origins. Hinnebusch argued

The parallel incorporation of the regional economy into the world capitalist system shattered regional economic interdependence and restructured the region into a classic dependent economy marked by the production and export of

³⁷² Ibid., p. 285.

primary products (e.g. cotton and oil) and dependence on imports of manufactures and technology.³⁷³

As a matter of fact, such trading pattern reduced inter-Arab regional trade since it weakened the productive sectors and devalued the exports in these developing countries because of the terms-of-trade imbalances. Wilson considered that “the economies of the Middle East, like other regions of the third world, had experienced considerable terms-of-trade problems, with exports prices falling in relation to import prices. Such deterioration in the terms of trade tends to occur with export of primary commodities in exchange of imports of manufactured goods.”³⁷⁴ Such effects, combined with other distortions derived from internal policies such as “overvalued exchange rates, the need to import machinery for industries producing industrial goods for local consumers”³⁷⁵, had encouraged imports and discouraged exports. Consequently, trade in general was weakened since exports were depressed. Accordingly, inter-Arab regional trade was slowed down.

In terms of imports, Arab states relied on industrial countries, mainly on the European Union, the United States and Japan, to supply their demands. This dependence strongly manifested after the oil booms of 1973 and 1979³⁷⁶ in both the oil and non-oil exporting Arab countries. Consequently, inter-Arab imports declined, especially between Iraq and the other Arab Mashreq countries.³⁷⁷

The following tables show the destination of both imports and exports of the Arab Mashreq states:

³⁷³ Refer to the Introduction written by Raymond Hinnebusch and Anoushiravan Ehteshami in Raymond Hinnebusch and Anoushiravan Ehteshami, *The Foreign Policies of Middle East States*, p. 3.

³⁷⁴ Rodney Wilson, *Economic Development in the Middle East*, p. 155.

³⁷⁵ Alan Richards and John Waterbury, p. 14.

³⁷⁶ The price of oil quadrupled after the 1973 war, which substantially increased the revenues of the Arab oil exporting countries. It also increased the revenues of the non-oil Arab states, which received extensive aid from oil exporting states. Moreover, the price of oil doubled in 1979, after the Iranian revolution. This increase in oil price also increased the revenues of both oil and non-oil producing Arab states.

³⁷⁷ Rodney Wilson, “The Arab Common Market and Inter-Arab Trade”, p. 5.

Table 6.1. The destination of Arab countries' exports in 1995 (% of total exports)

Country	Industrial Countries	Developing countries
Egypt	63.1	35.1
Iraq	0.60	99.4
Jordan	9.30	43.2
Lebanon	31.8	46.8
Syria	58.8	20.5

Source: I. Limam and A. Abdalla, *Inter-Arab Trade and the Political Success of AFTA*, Kuwait, Arab Planning Institute, 1998, p. 2.

Table 6.2. The destination of Arab countries' imports in 1995 (% of total imports)

Country	Industrial Countries	Developing countries
Egypt	65.0	29.7
Iraq	14.9	85.1
Jordan	49.5	49.1
Lebanon	68.2	31.3
Syria	46.5	38.4

Source: I. Limam and A. Abdalla, *Inter-Arab Trade and the Political Success of AFTA*, Kuwait, Arab Planning Institute, 1998, p. 2.

Table 6.1 and table 6.2 illustrate the high dependence of Egypt and Lebanon, especially during the reconstruction period, on industrialised countries. On the other hand, Jordan and Syria showed a more even distribution of imports between industrialised and developing countries. Iraq is in exceptional conditions of strict economic sanctions imposed since 1991.

Moreover, Syria and Egypt exported more to the industrial countries than to the developing countries because of aids and political arrangements with the ex-Eastern Bloc and the United States respectively.

Finally, the physical barriers that obstructed inter-Arab regional trade derived mainly from underdeveloped infrastructures and communication facilities between the Arab states. However, even if these factors had been improved, it would be doubtful how they would boost inter-regional trade; their underdeveloped conditions slowed down transit and trade in the region. Wilson confirmed,

Communications have been planned on a purely national basis in the Middle East and there is no inter-state network similar to that found in North America or the European Union. There is relatively little intra-regional trade and commerce in the Middle East, though the explanation for this is related more to economic structure than to transport infrastructure. It is always debatable how far the lack of inter-state highways merely reflects the low level of intra-regional trade or is itself a cause of restricted volume.³⁷⁸

Moreover, Grissa considered the Arab World with a larger geographic area and less developed infrastructure and poor means of transport and other facilities of communication could not be linked or bound effectively together. He confirmed,

Given, therefore, the long distances that separate the relatively populated areas of the Arab World, and their rather low levels of production of mutually tradable goods, the development of trade between them must be both costly and slow. As we have seen, this applies also to the development of the internal trade of the individual countries themselves, as many of them lack internal integration, both vertically, between their exporting sectors and the rest of their economies, and horizontally between their different regions.³⁷⁹

In fact, since trade-integrating schemes were marginal or barely applied on regional levels, infrastructures could only be planned and constructed on national levels. Besides, with all the economic and political barriers to trade mentioned previously, infrastructures can hardly explain the low regional trade between Arab states.

³⁷⁸ Rodney Wilson, *Economic Development in the Middle East*, p. 34.

³⁷⁹ Abdessatar Grissa, pp. 2-3.

Added to the poor and underdeveloped infrastructures between Arab states, the establishment of Israel as an independent state in the centre of the Arab World had also obstructed regional trade, especially in segregating, for a long time, Egypt from the Fertile Crescent. Israel not only separated Egypt from the Arab Mashreq physically, but also it separated the Arab Mashreq from the Arab Maghreb to some extent. This factor was political in nature; however its impact on weakening inter-Arab regional trade was more physical. The establishment of Israel, and the subsequent Arab boycott had a significant impact on Arab trade relations especially between Egypt from one side and Lebanon, Syria and Jordan, mainly the Arab neighbours of Israel from the other side.³⁸⁰

6.5 Conclusion

The regional trade in the Arab World has not been significant. It was hindered by many obstacles; some of them had short-term effects while others were more lasting. Moreover, most regional attempts to promote trade between Arab states were politically and not commercially inspired; therefore, they were doomed to fail.

Furthermore, the regional trade in the Arab Mashreq had developed mainly because of bilateral arrangements between Arab states, and it was also more influenced by some domestic economic liberalisation programmes. However, it is still considered minimal and its effect on regional politics and integration in general is negligible, as the next two chapters will reveal.

³⁸⁰ Ibid., p. 173.

CHAPTER SEVEN

A TIME SERIES ANALYSIS OF TRENDS OF INTER-ARAB MASHREQ TRADE, 1952-1998

7.1 Introduction

This chapter will examine trends of inter-Arab Mashreq trade starting from 1952 and ending in 1998. It will be divided into five sections. Each section will observe the trade trends during one specific decade and will illustrate by charts the share of regional trade to the total foreign trade of the Arab Mashreq states. It will also show the share of regional trade of each Mashreq state to the total regional trade. Accordingly, the patterns of inter-Arab Mashreq trade relations are grouped for the sake of simplification and better examination into five periods; 1952-1960; 1961-1970; 1971-1980, 1981-1990 and 1991-1998. However, as chapter eight will demonstrate these periods are not studied separately; some interpretations will be made on events that fall within two periods of studies.

Furthermore, this chapter will not limit the discussion to describing the regional trade of the Mashreq; it will also examine the effects of the political developments in the region, the external changes, and the impact of the regional attempts at integration on trade. Did these developments promote regional trade or did they have little impact?

The regional trade in the Mashreq will be considered as the dependent variable, and all other political and economic developments form the independent variables. A form of causality will proceed linking the variables employed with respect to the data obtained in this chapter.

The political developments in the Arab Mashreq were immense. They are the political factors that emanate inside the region of the Arab Mashreq. They include: aspects of revisionist Arab dialogues³⁸¹ created by Nasser and the Baath and challenged by

³⁸¹ Michael Barnett in *The Dialogues of Arab Politics* examined the development of the norms of Arabism and their derivatives of Arab integration and cooperation along a “constructivist approach” of

moderate Hashemite regimes in Iraq and Jordan and the more western-inclined regime of Lebanon during the 1950s. The same dialogues between revolutionaries and conservatives took different shapes after the revolutionaries came to power and a new phase of political rivalry and competition in the name of Arabism emerged and lasted until the death of Nasser and the coming to power of more moderate factions within the Baath. Another phase of the Arab dialogues was taking shape after Camp David and the Iran-Iraq war, but it mainly materialised after the Iraqi invasion of Kuwait. These events rendered implausible the Arab discourse calling for Arab unity or integration and placed the state's interests in the driving seat, since in each event one of the three protagonist states of Arabism, Egypt, Syria and Iraq, was looking for its self-interest.³⁸²

Moreover, the political developments were not restricted to the Arab political dialogues and discourses - although the latter shaped inter-Mashreq politics. They comprised major political events that affected the whole region of the Arab Mashreq. These events included the endorsement of the Baghdad Pact and the establishment of the UAR in the 1950s, the disastrous consequences of the 1967 war, the leaning of Egypt towards the West and particularly the United States during the 1970s, the Iran-Iraq war in 1980 and the invasion of Kuwait in 1990.³⁸³

Accordingly, the political developments, whether dialogues or events, will be considered as independent variables and their impact on regional trade will be examined.

Along the same line of analysis, the impact of external factors on regional trade will be studied. The external factors are considered the political and economic changes that occurred outside the Arab Mashreq region but had some consequences on the region. These external developments comprise mainly the impact of the changes of oil prices as with the oil booms in the 1970s and the sharp decline of oil prices in the 1980s. Moreover, the effect of some trends of economic liberalisation³⁸⁴ will also be

international relations. The use of such dialogues in this Chapter is credited to Barnett's methodology with difference in the time series division.

³⁸² Egypt signed the Camp David Accord and the Peace Treaty with Israel to save the Egyptian's interests and free itself from the Arab leadership burdens of the Arab-Israeli conflict. Syria deviated from the Arab stand and sided with the revolutionary Iran against Iraq in the Iran-Iraq war. Iraq invaded Kuwait in 1990 and breached the Charter of the League of the Arab States and all other resolutions protecting the integrity and independence of Arab states to save its material and economic interests mainly.

³⁸³ These political events influenced substantially the inter-Mashreq dialogues. The author picked out the most important ones without precluding others that may appear in the discussion.

³⁸⁴ The economic liberalisation programmes are considered external factors since they were mainly imposed by external international institutions like the IMF and the World Bank.

considered. Finally, the international sanctions imposed on Iraq during the 1990s are studied. However, the impact of the cold war struggle and alliances on regional trade is not shown since it was discussed in chapter six.³⁸⁵

Another aspect of causality, which is used in this chapter, is linking the Arab Mashreq regional attempts at integration to the regional trade. The regional attempts and agreements to promote inter-Arab trade were reviewed in chapter six; however, in this chapter, they will be examined with respect to the statistical results obtained, as independent variables, to study their impact on regional trade.

The statistics in this chapter were done over an extended period mainly for two reasons: first, the results become more accurate over a longer period of time due to the weak and unreliable facilities in collecting data in the Middle East. Wilson noted,

Statistics for Middle Eastern economies must be treated with caution. This applies especially to the period prior to 1970 when data collection techniques were much less reliable than they have since become. By evaluating a relatively long period the increased number of observations improves the statistical significance of any econometric analysis.³⁸⁶

Effectively, many unmatched results were obtained in examining imports and exports between the states of the Arab Mashreq. For example, on occasions the imports of state A from state B were not equal or not approximate to the exports of state B to A. Sometimes, they were double and even triple.

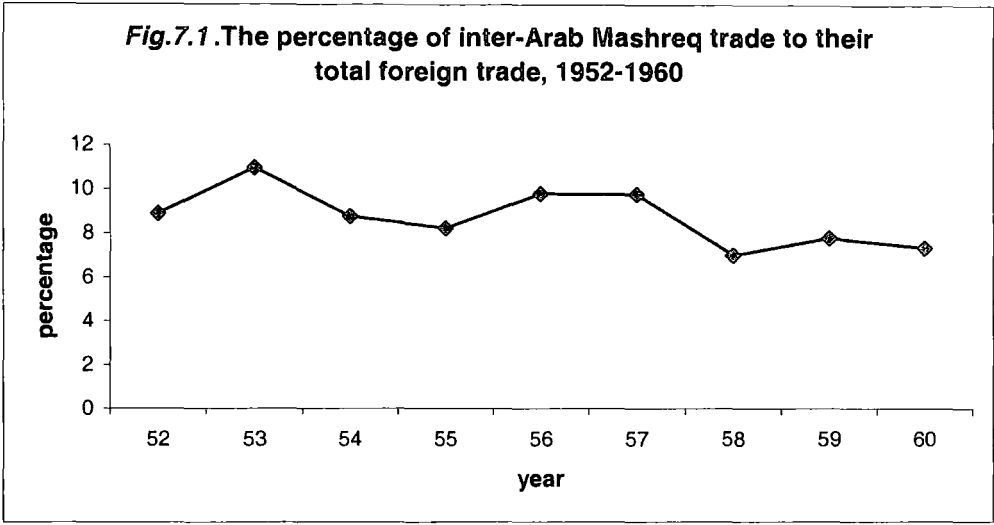
The second reason for choosing such a relatively long period was to ascertain that trade relations were not only determined by mere chance. Therefore, analysing such an extended period mainly from the establishment of the new Arab states system will evaluate better the results obtained.

³⁸⁵ In the previous Chapter, the author argued that extensive trade relations flourished between the Arab Mashreq states and both the United States and the Eastern Bloc. These relations were based on political alliances induced by the Cold War, and they reduced the inter-Arab Mashreq trade to some extent.

³⁸⁶ Rodney Wilson, *Economic Development in the Middle East*, p. 6.

7.2 Trade trends during the period of Arab revolutions, 1952-1960

In this period, the percentage of inter-Arab Mashreq trade to their total foreign trade did not reach 11 per cent. Its highest level was 10.95 per cent reached in 1953, and its lowest level was 7.00 per cent in 1958 as figure 7.1 shows below. During the period studied the average of inter-Arab Mashreq trade was 8.72 per cent of their total trade.



Source: Compiled by the author using data from the following sources: data on trade in 1952-53 were taken from the *Yearbook of International Trade Statistics*, 1954, New York, United Nations, 1955. And data on trade from 1954-57 were taken from the *Yearbook of International Trade Statistics*, 1957, Vol. 1, New York, United Nations, 1958. Also data from 1958-60 were taken from the *Yearbook of International Trade Statistics*, 1960, New York, United Nations, 1962. Moreover, for Lebanon and from (1952-1971) the trade in Petroleum and other goods of Petroleum Companies is excluded except that part destined for consumption of the output of the refinery of Tripoli, it is included in the import statistics of Lebanon.³⁸⁷

In analysing the above chart, it is important to notice decreases in the regional trade in three different periods. The first is between 1953 and 1955 when inter-Arab Mashreq trade dropped by 2.73 per cent. The second is between 1957 and 1958 when regional trade dropped by 2.75 per cent to reach its lowest level attained during the 1950s in 1958. The last is a slight decrease by 0.45 per cent from 1959 to 1960.

Moreover, the chart depicts three periods in which inter-Arab Mashreq trade increased. The first is from 1952 to 1953 when regional trade rose by 2.07 per cent. The second is from 1955 to 1956 in which regional trade raised by 1.56 percent. And the last increase is by 0.79 per cent from 1958 to 1959.

³⁸⁷ The same sources were used to compile the charts in figures 7.2, 7.3, 7.4, 7.5 and 7.6.

The decrease in the regional trade percentage in 1953-55 was owing to increases in foreign trades of some states like Iraq, in which foreign trade tripled, and Lebanon, in which foreign trade increased by one and a half in 1955, compared to their foreign trade in 1953.

Moreover, the decrease of trade in 1957-58 was caused by the reduction of the regional trade of each state in the region. The political developments in the region resulted in decreasing trade during this period. After the nationalisation of the Suez Canal in 1956, Nasser emerged as an unchallenged Arab leader, threatening the existence of other "conservative" Arab regimes, mainly the Hashemite of Jordan and Iraq and the pro-western regime of Lebanon. Nasser's discourse created changes in the Arab Mashreq region where states were more suspect of others' interference in their own affairs. Arab regimes either fell, as happened in Iraq, or they resisted by closing their borders to neighbouring Arab states, as happened in Lebanon when it closed its border against Syria in 1957.

Accordingly, this political environment, full of distrust and suspicion, reduced the regional trade by making borders more controlled. In effect, even when the regime changed in Iraq, the new leadership under General Quassim was more distrustful of Nasser and refused to join the UAR established between Egypt and Syria in 1958.³⁸⁸ Quassim jailed many Nasserites and adopted an isolationist stand in the region reducing the opportunity of interfering in his country in the name of Arabism and Arab integration.

Moreover, as figure 7.1 showed, the regional trade dropped after 1957. However, the establishment of the UAR in 1958 slightly increased the regional trade – but it did not reach the level of 1956-1957 – despite the increase in the bilateral trade of Syria and Egypt. In fact, the formation of the UAR reduced the regional trade of Lebanon by decreasing its bilateral trade with Syria, and it did not have any impact on the regional trade of Iraq that was trying to isolate itself from the region during Quassim's period.

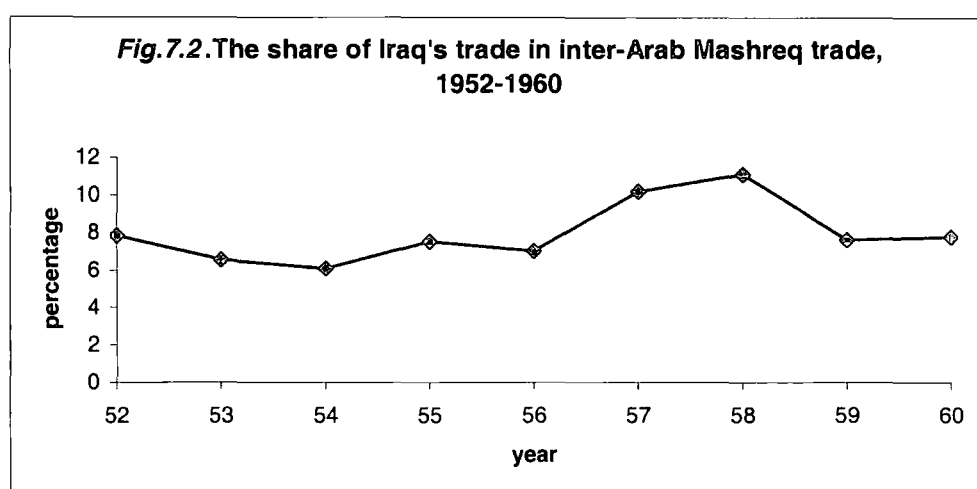
On the other hand, the increased percentage of inter-Arab Mashreq trade in 1952-53 was mainly due to a boost of Jordan's trade with the region. Its regional trade moved up from \$3.26 million to \$14.24 million, whereas the increase in the percentage of regional trade in 1955-56 was due to an increase in the regional trades of all the states of the

³⁸⁸ Refer to Alan Taylor, p. 35.

Arab Mashreq. In fact, it could be argued that the ratification of the 1953 agreement to promote trade increased the regional trade to some extent.

In general, the average regional trade during this period reached \$200 million, and it kept increasing throughout the whole period, except in 1957, when it dropped to \$186 million.

Furthermore, considering the shares of individual countries, that is, the shares of Iraq, Egypt, Jordan, Lebanon and Syria in the regional trade, and beginning by analysing Iraq's regional trade, the chart in figure 7.2 shows that the average share of Iraq during that period was around 7 per cent, with a slight increase in 1957 and 1958.



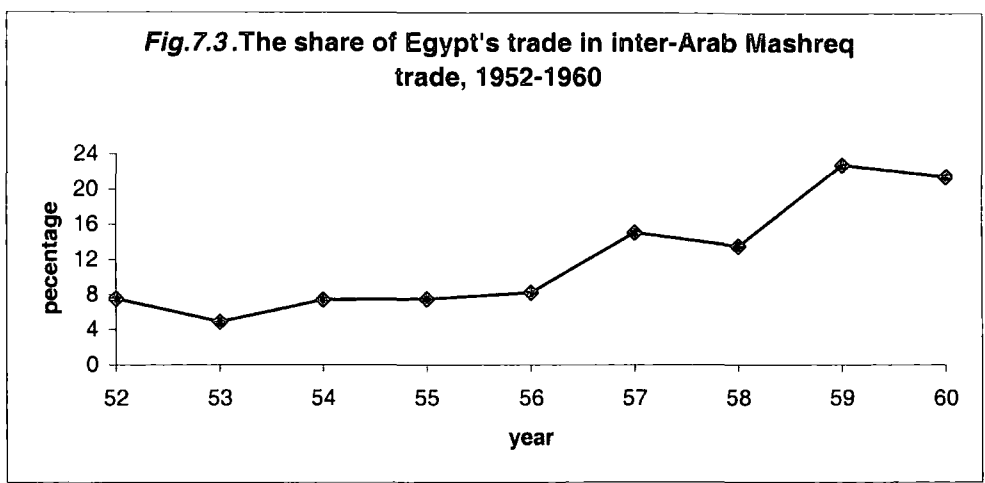
Source: Compiled by the author using sources listed in figure 7.1.

Iraq's share was the smallest to the regional trade of the Arab Mashreq states. In spite of some increase in 1957, its share dropped after 1958 with the removal of the Hashemite regime by General Abdul Karim Quassim. Quassim adopted an isolationist regime which maintained cold relations with the Arab Mashreq states in general, especially with Nasser's Egypt. In effect, in 1959 the Iraqi-Egyptian relations became very hostile when Iraq was trying to get Soviet support, and Egypt felt that the increasing presence of Soviets in the region would augment the danger of interfering in its own affairs.³⁸⁹ As a result, in that year the bilateral trade of Egypt and Iraq dropped to its minimum level during this period.

³⁸⁹ R.D. McLaurin, Don Peretz and Lewis W. Snider, *Middle East Foreign Policy: Issues and Processes*, New York, Praeger Publishers, 1982, p. 45.

In fact, the regional trade formed a very tiny proportion of Iraq's foreign trade. It constituted an average of 3 per cent of its total trade.

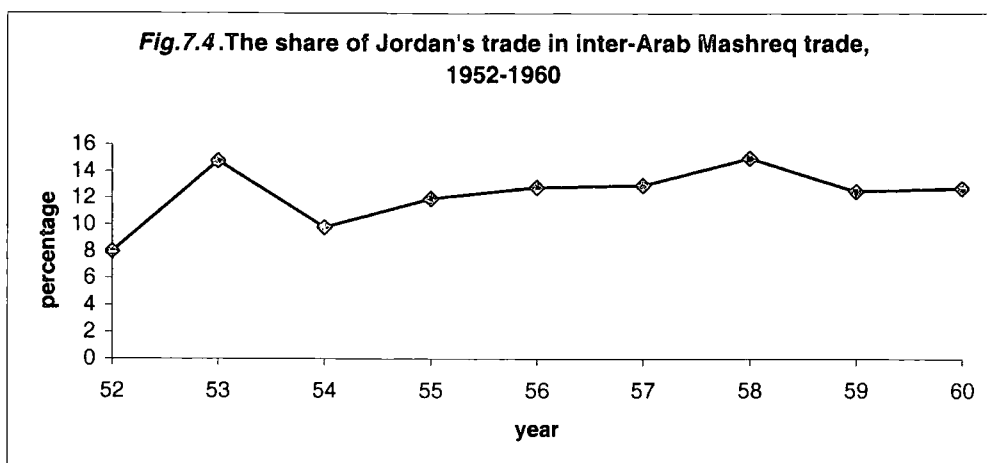
Egypt's share, as figure 7.3 depicts below, kept increasing from 1953, and in 1957 it formed 15 per cent of the total regional trade. And later, after 1958, it rose dramatically.



Source: Compiled by the author using sources listed in figure 7.1.

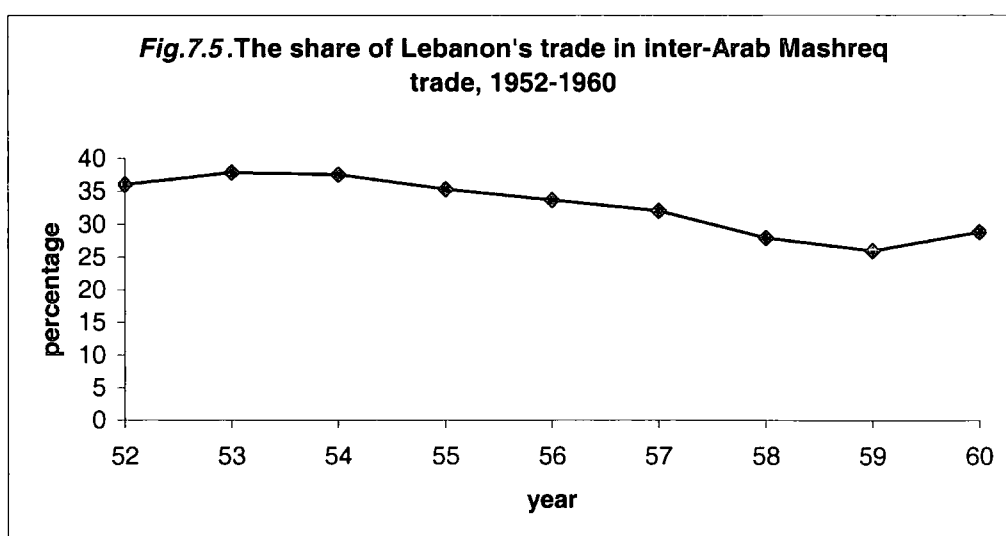
Egypt's regional trade share formed around 22 per cent of the inter-Arab Mashreq trade in 1959 and 1960. This sharp increase was due to the formation of the UAR, with Syria in 1958. In fact, the formation of the UAR tripled the bilateral trade of Egypt and Syria. However, even at its peak level in 1959, the regional trade of Egypt formed no more than 5 per cent of its total trade, whereas this percentage was around 2 per cent in previous years.

Jordan's share was considerably higher than the share of Iraq and Egypt. Its average share during the 1950s was around 12 per cent and its trade with the Mashreq was steadily increased especially with Syria and Lebanon. Moreover, its regional trade was more significant than those of Iraq and Egypt, since it formed more than the third of its total trade.

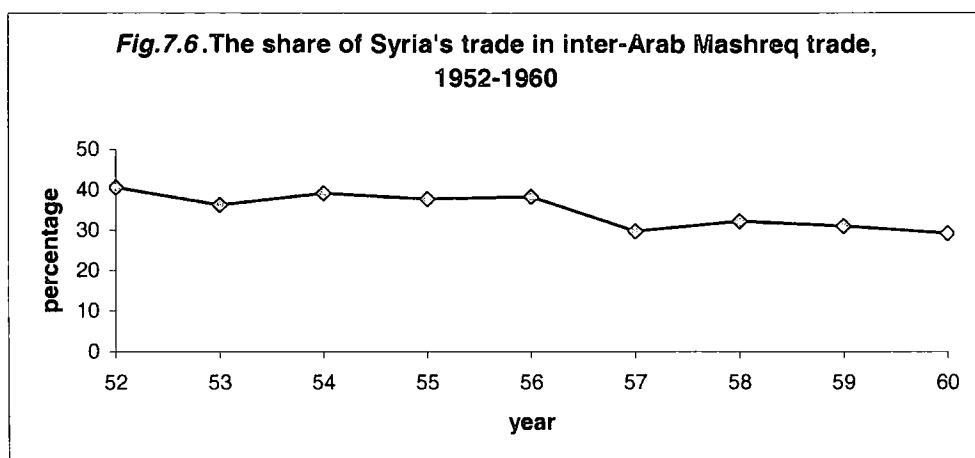


Source: Compiled by the author using sources listed in figure 7.1.

Finally, during that period, the regional trade of both Lebanon and Syria, as depicted in figures 7.5 and 7.6, formed the bulk of the inter-Arab Mashreq trade. They maintained a relatively significant bilateral trade, although their political relations were fluctuating. Their shares constituted 70 per cent of the whole regional trade until 1956, and then they dropped to approximately little over 60 per cent until the end of the decade. Syria had the highest share in 1952, which exceeded 40 per cent of the total regional trade. However, the regional trades of both countries were in a continuous decline during the examined period. Moreover, the regional trade of Lebanon formed more than the third of its total trade and it slightly decreased after the formation of the UAR, whereas, the regional trade of Syria constituted around the quarter of its total foreign trade.



Source: Compiled by the author using sources listed in figure 7.1.

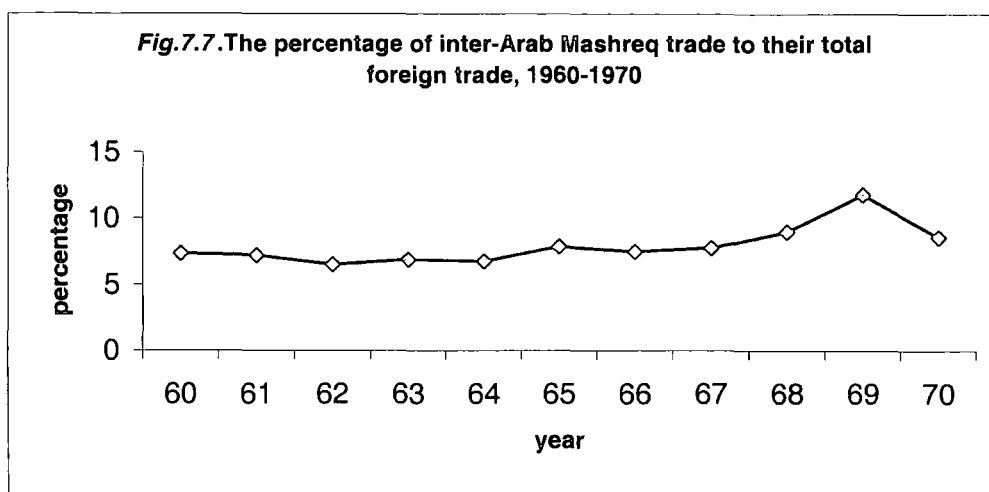


Source: Compiled by the author using sources listed in figure 7.1.

In sum, during the period 1952-1960, the inter-Arab Mashreq trade did not make up a considerable part of the total foreign trade of the Arab Mashreq states, and its percentage was in a continuous decrease. Moreover, the regional trade of Jordan, Lebanon and Syria formed the constructive fraction – more than 80 per cent – of the total regional trade, and they constituted significant parts of their foreign trade, unlike Egypt and Iraq, in which their regional trade formed a minimal proportion of their foreign trade.

7.3 Trade trends during the period of Arab socialism, 1961-1970

The regional trade percentage in this period maintained an average of around 8 per cent of the total foreign trade compared to 8.72 per cent in the previous decade. Its highest percentage reached 11.85 per cent in 1969 and its lowest level was 6.53 per cent in 1962. As figure 7.7 depicts below, the inter-Arab Mashreq trade percentage was in a continuous and slow increase throughout the whole decade with two noticeable increases in 1965 and in the period after 1967 where the maximum increase was shown in 1969.



Source: Compiled by the author using trade data from the *Yearbooks of International Trade Statistics*, 1963, 1967, 1970-1971, New York, United Nations, 1965, 1969 and 1973. Moreover, for Lebanon and from (1952-1971) the trade in Petroleum and other goods of Petroleum Companies is excluded except that part destined for consumption of the output of the refinery of Tripoli, it is included in the import statistics of Lebanon.³⁹⁰

The decrease in the regional trade in 1961-1962 was mainly due to two important factors: first, the split of the UAR in 1961 and the consequent strain in diplomatic and trade relations between Syria and Egypt. Secondly, the isolationist regime that ruled Iraq was still existing during that time.

On the other hand, the increase in the Arab Mashreq trade percentage after 1964 was also based on mainly two causes: the first was the establishment of the ACM between all Arab Mashreq³⁹¹ states except Lebanon. And the second was the large increase of Iraq's regional trade after the removal of Quassim's regime in 1963. However, it is debatable how much the establishment of the ACM conspicuously raised regional trade since its establishment coincided with the adoption of highly protective measures in the name of Arab socialism,³⁹² but it is certain that Iraq regional trade jumped up after the amputation of Quassim's regime.

Moreover, the increase in the regional trade percentage after 1967, and mainly during 1968-1969, to reach its apex in 1969 originated from an increase in the regional trade of all Mashreq states, except Lebanon. As a fact, Lebanon's trade decreased from \$123.62 million in 1968 to \$107.49 million in 1969.

³⁹⁰ The same sources were used to compile the charts in figures 7.8, 7.9, 7.10, 7.11 and 7.12.

³⁹¹ These states were Egypt, Syria, Iraq and Jordan.

³⁹² Refer to Chapter Six.

Surprisingly, only after the 1967 defeat did the Arab Mashreq states revise their regional thinking. They suddenly realised that their rivalry and conflict weakened their position in their war with Israel. This political development and mainly the high cost of the war promoted regional trade by making Arab Mashreq regimes more willing to cooperate, not least to recover from the disastrous outcomes of the war.

The percentage of inter-Arab Mashreq trade was steady until 1967, and afterwards, it increased to reach its highest level in 1969, with a regional trade value of approximately \$400 million.

In fact, the period of the 1960s witnessed many attempts at regional integration, starting from the unity talks of 1963 between Egypt, Syria and Iraq, to the endorsement of the Arab Summit system³⁹³ in 1964 and the creation of the ACM in the same year. However, these developments had little influence on the regional trade. In fact, the repercussions of the 1967 war had more influence on the inter-Arab Mashreq trade.

Considering the share in percent of each country to the regional trade percentage, and starting with the Iraqi share, figure 7.8 gives a clear picture of two different phases of Iraqi trade: the first is before 1963, and the second is after 1963 until the end of this period.



Source: Compiled by the author using sources listed in figure 7.7.

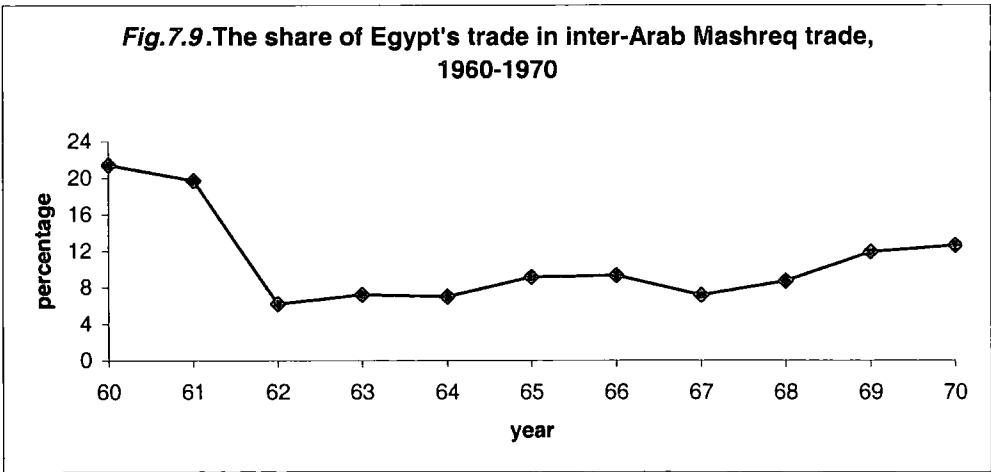
³⁹³ The 1960s ushered different attempts at political integration between Arab states. They were mainly the Arab Summits that were orchestrated by Egypt. Before the 1967 war, three summits were held in January and December of 1964 and in September of 1965. These summits discussed ostensibly the joint efforts to face the Israeli threat to divert the Jordan River water in 1964.

In the first phase, the average share of Iraq was less than 8 per cent. However, this share dramatically increased in the second phase after 1963 to reach 20 per cent of the regional trade percentage in 1964, and the Iraqi regional trade jumped from \$26.51 million in 1963 to \$52.82 million in 1964. After 1963, General Quassim was removed and Abdel Salam Aref took power. Aref's regime was "moderately Pan-Arab and (has) some strong Nasserite elements, but Aref proved to be wary of any real integrationist scheme".³⁹⁴ In the aftermath, Iraqi trade increased with both Syria and Lebanon and to some extent with Egypt and Jordan during the 1960s.

Moreover, as figure 7.9 shows below, the regional trade of Iraq increased starting from 1968 after a new Baath regime came to power and overthrew Aref. The new regime, which was the opposing wing of the Baathist regime in Syria, increased its economic ties, mainly with Jordan.³⁹⁵

Iraq's regional trade formed more than the fifth of the whole Arab Mashreq trade after 1963; however, this trade constituted, on the average, around 5 per cent of its foreign trade.

The share of Egypt's trade to the regional trade radically declined in 1961 after the disintegration of the UAR. Its percentage dropped from 19.71 per cent in 1961 to form only 6.20 per cent of the Arab Mashreq trade as figure 7.9 demonstrates below.



Source: Compiled by the author using sources listed in figure 7.7.

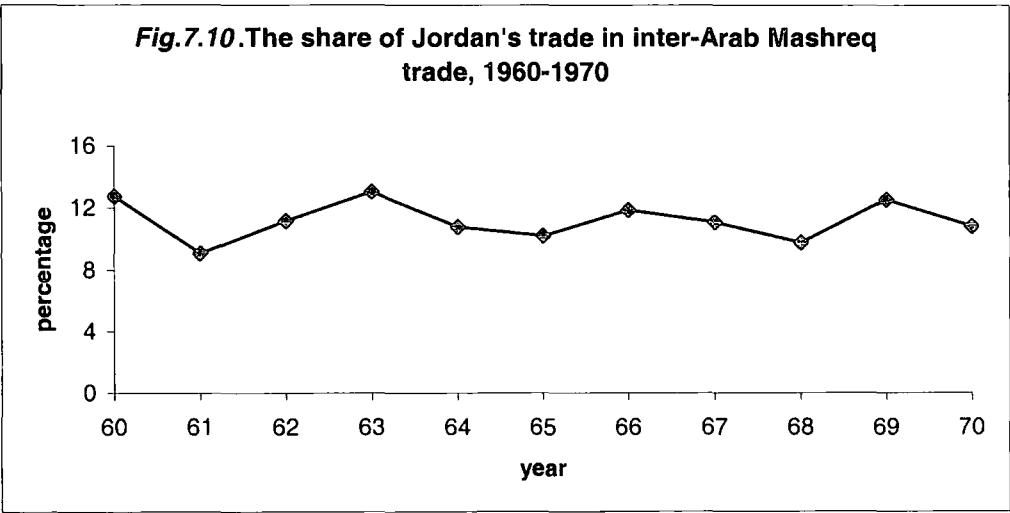
³⁹⁴ Phebe Marr, "Iraq: Balancing Foreign and Diplomatic Realities" in L. Carl Brown, (ed.), *Diplomacy in the Middle East: The International Relations of Regional and outside Powers*, London, I.B. Tauris Publishers, 2001, p. 192.

³⁹⁵ Ibid., pp. 193-194.

Egypt's share kept increasing slowly from 1962. And in the aftermath, it went up further after 1967 to exceed 12 per cent of the inter-Arab Mashreq trade. Egypt maintained relatively considerable trade relations with Lebanon and with Iraq only after 1963. However, its trade with Jordan was minimal, and its trade with Syria only flourished after 1968, since their relations were strained after the split of the UAR in 1961.

Egypt's regional trade formed a very tiny part of its foreign trade; during its peak times in 1961 and 1970, it formed less than 4 per cent of its foreign trade, whereas in all other times during the 1960s, it was around 1.3 per cent on the average.

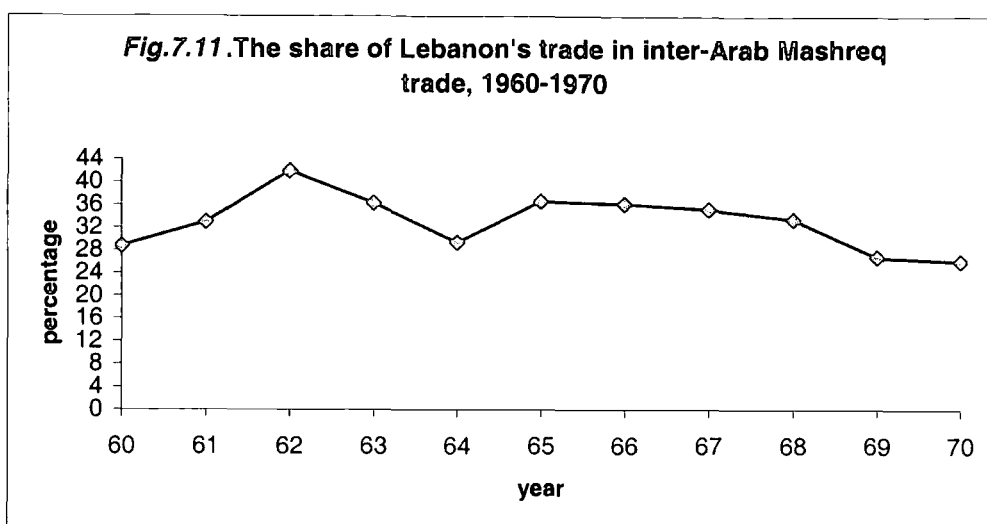
The share of Jordan fluctuated around an average of 10 per cent of the total regional trade as figure 7.10 demonstrates.



Source: Compiled by the author using sources listed in figure 7.7.

Jordan mainly traded with Lebanon and their bilateral trade formed on the average more than 40 per cent of Jordan's regional trade. Also, Jordan's trade increased with Syria after the cessation of the UAR. However, its trade with both Iraq and Egypt was kept modest. The regional trade of Jordan with the Mashreq constituted around 18 per cent of its foreign trade.

The share of Lebanon maintained an average of more than 32 per cent of the regional trade. It reached its maximum in 1962, when it formed more than 40 per cent of the inter-Arab Mashreq trade as figure 7.11 below shows.



Source: Compiled by the author using sources listed in figure 7.7.

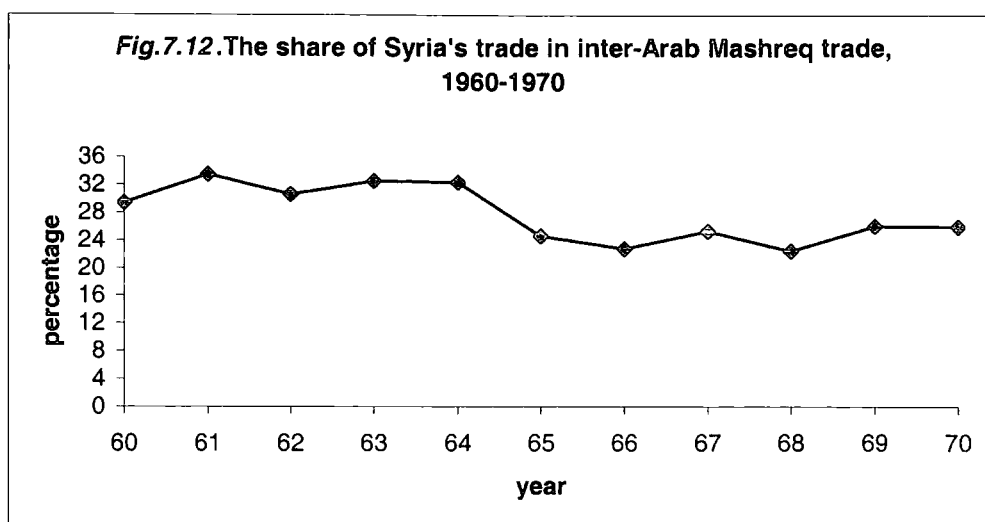
This increase occurred when its trade with Syria doubled after the split of the UAR in 1961. However, after 1965 Lebanon's share kept decreasing slowly to reach its lowest level in 1970, which was around 26 per cent of the regional trade.

Lebanon upheld relatively sizeable trade relations with all the states of the Arab Mashreq. However, its trade expanded with Syria, especially after the demise of the UAR. Moreover, Lebanon's trade with Iraq increased after 1963 to make up in the years 1969 and 1970 the third of its regional trade with the Mashreq.

On average, the regional trade of Lebanon formed around 18 per cent of its foreign trade, showing a considerable decrease from 30 per cent in the period 1952-1960.

Syria's regional trade share to the regional trade was higher before 1965, with an average percentage of around 32 per cent. Then, it dropped in the period from 1965 until 1969 as figure 7.12 demonstrates. However, it maintained an average of around 25 per cent of the regional trade. In fact, in 1966 a more radical regime came to power, and it started outbidding other Arab regimes in the name of Arabism and considered the "past Arab summits as selling out the Arab nation and the cause of Palestine" since these summits offered an "excuse for inaction".³⁹⁶ The new regime's political instability increased the suspicion of other Arab states in their dealings and trade with Syria. In effect, this regime was accused of radicalising the political situation that led to the 1967 war.

³⁹⁶ Michael Barnett, p. 155.



Source: Compiled by the author using sources listed in figure 7.7.

Syria maintained relatively substantial trade relations with Lebanon, Iraq and Jordan. And its trade with Egypt considerably developed after 1967. In 1961, before the disintegration of the UAR, Syria's regional trade constituted around 25 per cent of its foreign trade. However, after 1961, its regional trade dropped to an average of 17 per cent of its foreign trade.

As a matter of fact, although both the shares of Lebanon and Syria were still elevated during the 1960s; however, they decreased at the end of the decade when regional trade considerably increased. The regional trade reached its maximum in 1969, whereas the shares of both Lebanon and Syria jointly decreased to around 50 per cent.³⁹⁷ This decline was replaced mainly by an increase in the Iraqi regional trade.

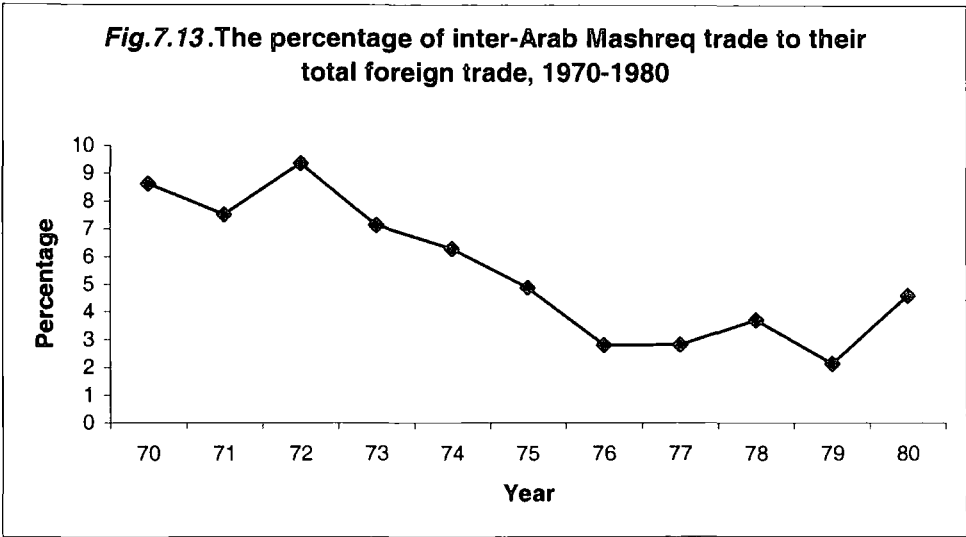
Overall, the regional trade in the 1960s was differently distributed; it was slightly increasing to reach its highest level in 1969. But still, it was relatively minimal, although, in theory, this decade witnessed one of the most ambitious attempts to promote regional trade in the Arab Mashreq. This was the Arab Common Market that was established in 1964 and included most Arab Mashreq states except Lebanon.

Moreover, as in the previous period, the inter-Arab Mashreq was still forming a tiny proportion of the foreign trade of both Egypt and Iraq, but it extended between 15 and 20 per cent of the foreign trade of Jordan, Lebanon and Syria.

³⁹⁷ They formed more than 75 per cent of the inter-Arab Mashreq trade at the beginning of the period 1952-1960.

7.4 Trade trends during the period of the oil booms, 1971-1980

The percentage of the inter-Arab Mashreq trade to their total trade was decreasing during this period as figure 7.13 shows below, and it dropped to 2.14 per cent in 1979, its lowest level attained in three decades.



Source: Compiled by the author. Data on trade for the years 1970 and 1971 were taken from the *Yearbook of International Trade Statistics 1970-1971*, New York, United Nations, 1973; data on trade from 1972 until 1974 were taken from the *Yearbook of International Trade Statistics 1974*, Vol. 1, Trade by Country, New York, United Nations, 1975; data on trade from 1975 until 1979 were taken from the *1979 Yearbook of International Trade Statistics*, Vol. 1, Trade by Country, New York, United Nations, 1980; data on trade for the year 1980 were taken from the *1980 Yearbook of International Trade Statistics*, Vol 1, Trade by Country, New York, United Nations, 1981. However, exports and imports of Lebanon for the years 1974, 1975, 1976, 1977, 1978, were taken from the *External Trade Bulletin of the ESCWA Region*, 9th Issue, New York, United Nations, 1998. Moreover, total exports and imports of Iraq for the years 1979 and 1980 were taken from the *External Trade Bulletin of the ESCWA Region*, 10th Issue, New York, United Nations, 2000.³⁹⁸

The average of the regional trade percentage was 5.12 per cent with a maximum percentage of 9.36 per cent reached in 1972. This period was examined carefully since it witnessed a remarkable change in the values of imports and exports after two successive oil booms in 1973 and 1979. The sharp increase in the price of oil tremendously increased states' revenues and, consequently, states' expenditures. As a result, more imports were needed especially from the more industrialised states to assist huge infrastructure and industrial development. Moreover, the increase in the price of oil raised the value of exports and, consequently, increased the value of trade.

³⁹⁸ The same sources were used to compile the charts in figures 7.14, 7.15, 7.16, 7.17, 7.18 and tables 7.1 and 7.2.

The regional trade increased in absolute value but it decreased as a percentage of total regional trade of the Arab Mashreq, since all Arab Mashreq foreign trade increased as a result of the impact of the 1973 oil boom.

In the beginning of the 1970s, the political situation was conducive to more Arab cooperation. After the death of Nasser, Egypt discarded its revisionist attitude - although this new political realism emerged after 1967 - and Syria under the leadership of Hafez al Assad, who held power in 1970, was moving toward a “rapprochement with Cairo”. Egypt and Syria improved their relations with Jordan. However, Iraq became more isolated from the inter-Arab politics by retaining its “revolutionary orientation”.³⁹⁹ However, the rise of oil prices in 1973 was more significant for external trade with the West, and it reduced the relative importance of the inter-Arab Mashreq trade.

Figure 7.13 above showed clearly that the percentage of inter-Arab Mashreq trade decreased since 1973. However, by taking the impact of the oil boom after 1973 and comparing regional trade values to regional trade percentages, as tables 7.1 and 7.2 show, the picture becomes more comprehensible.

Table 7.1. The foreign trade of the Arab Mashreq states in \$ million, 1972-1980.

	1972	1973	1974	1975	1976	1977	1978	1979	1980
Iraq	1656	2852	8967	12638	12738	12648	15276	31490	40357
Egypt	1723	2040	3866	5335	5383	6524	8468	5677	7766
Jordan	313	385	641	884	1231	1630	1795	2351	2844
Lebanon	1200	1730	3918	3428	1449	2663	3144	4200	5326
Syria	827	964	2025	2598	3043	3719	3496	4943	6224

Source: Compiled by the author using sources listed in figure 7.13.

Note: The shaded areas represent the years of the oil booms. It is noticeable how foreign trade jumped after 1973 and to some extent after 1979.

Table 7.1 reveals a leap in the values of the foreign trades after 1973 due to the first oil boom and another lesser increase after the second oil boom in 1979. However, table 7.2

³⁹⁹ Alan R. Taylor, p. 47.

depicts clearly that such increase in foreign trade values was not matched with a similar increase in regional trade. Consequently, the inter-Arab Mashreq trade apparently dropped.

Table.7.2: The inter-Arab Mashreq trade and its percentage of Arab Mashreq foreign trade, 1972-1980.

	1972	1973	1974	1976	1977	1978	1979	1980
Regional trade \$ million	536	569	1219	669	767	1196	1041	2738
% of regional trade to the total foreign trades	9.36	7.14	6.28	2.81	2.82	3.72	2.14	4.59

Source: Compiled by the author using sources listed in figure 7.13

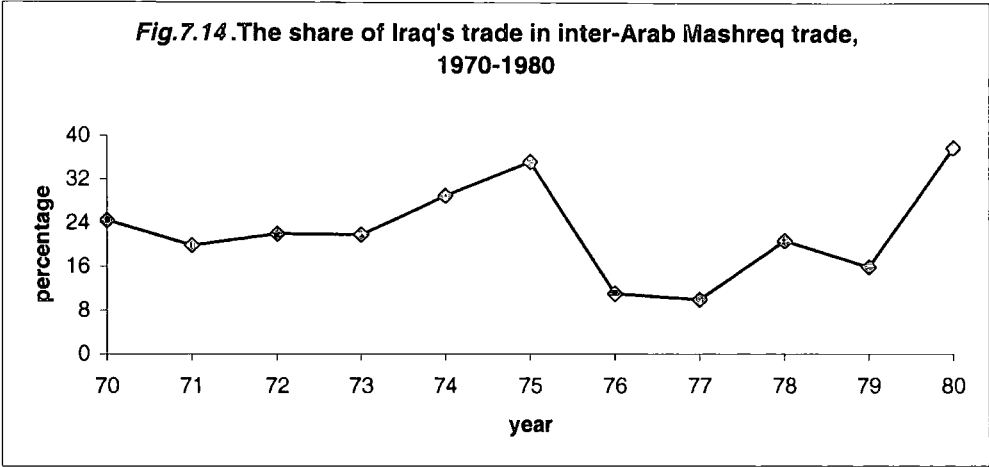
Moreover, as figure 7.13 showed, the regional trade percentage increased in spite of the effect of the oil boom between 1977 and 1978. The main reason was the sharp increase in the Iraqi regional trade, since it jumped up from \$76 million in 1977 to reach \$248 million in 1978. In fact, Iraq's trade increased tremendously with Syria. Their bilateral trade rose from around 15 million to exceed \$170 million.

In addition, there was another increase at the end of the decade in spite of the second oil boom in 1979. This increase was mainly due to a boost in the trade of Iraq with both Syria and Lebanon. The bilateral trade of Iraq and Syria augmented from \$73.6 million in 1979⁴⁰⁰ to reach \$764 million in 1980. And the bilateral trade of Iraq and Lebanon increased from \$44 million to \$167 million in the same period. Actually, this increase in bilateral trade was caused by a surge of crude oil exportations from Iraq to both Syria and Lebanon.

Moreover, during the same period the political relations of Syria and Jordan warmed after Egypt leaned to the United States and signed the Sinai interim agreements with Israel in 1974 and 1975. Assad of Syria enhanced its economic and political relations with Jordan to restore its regional position after loosing Egypt's support, his regional back up. In fact, though the bilateral trade of Jordan and Syria increased, its impact was minimal.

⁴⁰⁰ The bilateral trade of Syria and Iraq decreased in 1979 from \$171 million to \$74 million. Actually this decrease lowered the regional trade of the Arab Mashreq states.

Considering the share of each country to the inter-Arab Mashreq trade and beginning with Iraq, it is noticeable as figure 7.14 reveals how the share of Iraq fluctuates. It was unstable during the whole period.



Source: Compiled by the author using sources listed in figure 7.13.

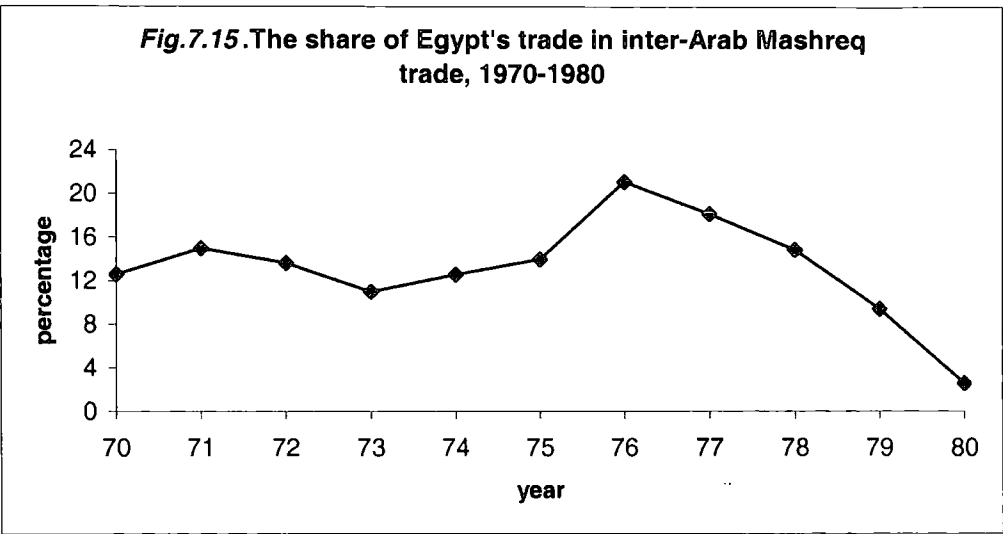
In general, Iraq maintained a large share of the regional trade. Its percentage exceeded 30 per cent in the years 1975 and 1980. Iraq kept relatively good trade relations with Syria and Lebanon. Moreover, its trade with Egypt was modest, but it decreased after 1978, when Egypt ratified the Camp David Accord with Israel. Iraq's trade with Jordan was boosted after 1978 to reach around \$100 million in 1980 compared to \$9.7 million in 1975.

Even though the regional trade of Iraq was augmented after the oil booms of the 1970s, it did not form more than 3 per cent of its foreign trade until 1975. Between 1975 and 1980 it formed around 1 per cent.

Egypt upheld an average share of around 12 per cent between 1971 and 1975 as figure 7.15 below shows. Later on, its share rose between 1976 and 1978, and then, it began a sharp decline after Camp David and the peace treaty with Israel in 1978 and 1979 respectively. In fact, in 1980 Egypt's regional share was minimal to form only 2.56 per cent of the inter-Arab Mashreq trade.

Before Camp David, Egypt maintained relatively considerable trade relations with Lebanon and Iraq, and its trade became more substantial with Syria in 1977. Its trade with Jordan was comparatively modest. The regional trade of Egypt with the Mashreq

only formed an average of 3 per cent of its foreign trade. However, after its peace treaty with Israel, Egypt's trade with the Mashreq dropped to 1 per cent of its total trade. The change was not significant to restrain Egypt from furthering its deviation from the Arab camp.

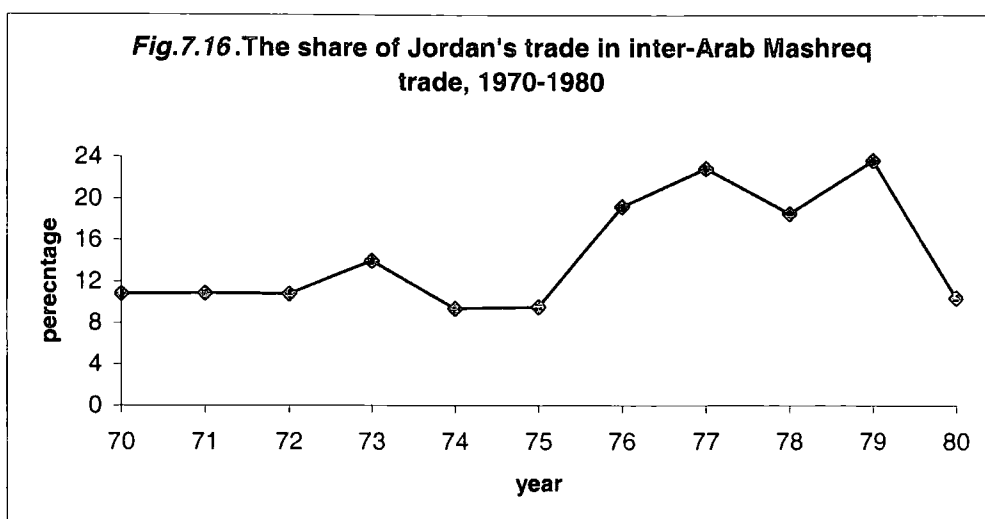


Source: Compiled by the author using sources listed in figure 7.13.

As figure 7.16 below reveals, the share of Jordan started to increase after 1975. Between 1976 and 1979, it reached an average of 21 per cent of the inter-Arab Mashreq trade. During this period, Jordan maintained stable political and economic relations with Syria.⁴⁰¹ Therefore, Jordan's trade substantially augmented with Syria and Lebanon, but it maintained a rather modest trade with Egypt. After 1978, Jordan boosted its trade with Iraq. King Hussein decided to come closer to Iraq at the expense of its warm relations with Syria since he felt that the regional position of Iraq was on the ascendancy.⁴⁰²

⁴⁰¹ Refer to Laurie Brand, "In Search of Budget Security: A Re-examination of Jordanian Foreign Policy" in L. Carl Brown, p. 145.

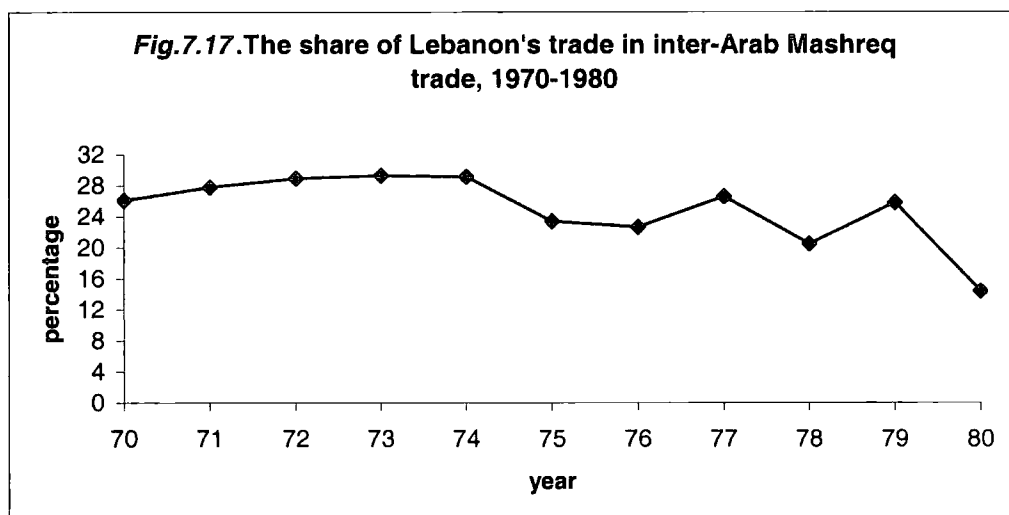
⁴⁰² Ibid., p. 146.



Source: Compiled by the author using sources listed in figure 7.13.

Until 1974, the regional trade of Jordan formed around 18 per cent of its foreign trade, whereas afterwards, it constituted an average of 10 per cent of its foreign trade.

The share of Lebanon decreased in this period. As figure 7.17 shows, Lebanon's share to the regional trade got higher between 1971 and 1974, and then, it declined in the first years of the civil war between 1975 and 1976.

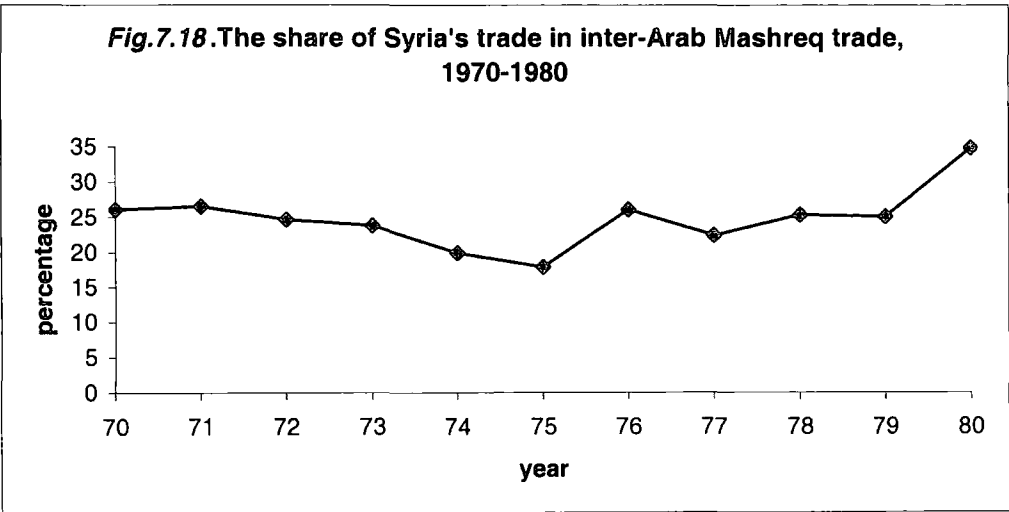


Source: Compiled by the author using sources listed in figure 7.13.

On average, Lebanon's share formed 25 per cent of the inter-Arab Mashreq trade in this period. Lebanon had sizeable trade relations with all the states of the Arab Mashreq, but

its trade excelled with Syria. On average, the regional trade of Lebanon formed only 8 per cent of its foreign trade.

The share of Syria was slightly reduced in this period. It reached an average of 23 per cent of the inter-Arab Mashreq trade. As figure 7.18 depicts below, Syria's share increased in 1979 to form around 34 per cent of the regional trade, after its trade was boosted with Iraq.



Source: Compiled by the author using sources listed in figure 7.13.

Syria had extensive trade with Lebanon and intermittently developed trade with Iraq. Moreover, its trade was boosted with Jordan between 1976 and 1980. Its trade with Egypt was kept modest until it rose in 1977, and then it dropped severely after Camp David in 1978.

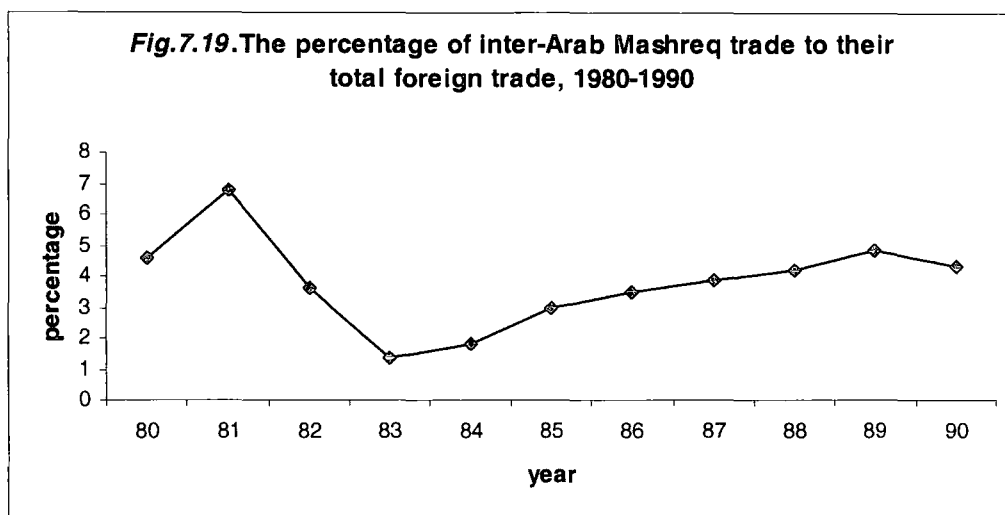
The proportion of Syria's regional trade to its foreign trade was in a continuous decrease; while it formed around 18 per cent of its foreign trade in 1971, it only constituted 5.26 per cent in 1979.

In sum, the inter-Arab Mashreq trade was decreasing in this period, and it got lower compared to previous periods. Moreover, its share of the foreign trades of both Iraq and Egypt was kept small, but it maintained constant average for Jordan. However, for both Syria and Lebanon, the proportion of regional trade to their foreign trade had substantially dropped.

Furthermore, the distribution of shares changed; the shares of Jordan and Iraq became more elevated substituting those of Lebanon and Syria.

7.5 Trade trends during the period of the post-oil booms, 1981-1990

The regional trade percentage reached its lowest level ever in 1983, which dropped to 1.37 per cent. The average of inter-Arab Mashreq trade percentage to their total trade was around 3.72 per cent during the 1980s.



Source: Compiled by the author. Data on trade between 1980 and 1990 were taken from the Arab Monetary Fund, *Foreign Trade of Arab Countries, 1980-1990*, Issue No. 8, Abu Dhabi, AMF, 1991. However, the data on the Lebanese trade for the year 1980 were taken from the *External Trade Bulletin of the ECWA Region*, 2nd Issue, Baghdad, ESCWA, 1984. Moreover, data on Iraqi imports from 1980 until 1983 were chosen from the *External Trade Bulletin of The ESCWA Region*, 2nd Issue, and data on Iraqi imports from 1984 until 1990 were taken from the *External Trade Bulletin of the ESCWA Region*, 10th Issue, New York, United Nations, 2000. Although data on Iraqi imports were available in the AMF source, however, Professor Wilson recommended the ESCWA data.⁴⁰³

As figure 7.19 above shows, the percentage of regional trade reached 6.7 per cent, its highest level, in 1981, and then it dropped sharply to attain its lowest level in 1983. It kept increasing steadily afterwards until 1989 to reach 5 per cent, its peak level in the second half of the 1980s.

In fact, in 1981 inter-Arab Mashreq trade reached its uppermost value at \$3 billion, and the reasons were mainly because of the tremendous increases in the bilateral trade of Iraq and Jordan and Iraq and Syria. The regional trade of Iraq in that year attained

⁴⁰³ The same sources were used to compile the charts in figures 7.20, 7.21, 7.22, 7.23, and 7.24.

\$1200 million. On the other hand, the regional trade of Egypt decreased in the first half of the 1980s to an average of \$60 million compared to an average of \$150 million in the 1970s before Camp David. Egypt maintained a relatively modest trade with the Mashreq, taking in consideration the severe Arab tone to break off all relations after its peace treaty with Israel in 1979. Actually, in spite of the boycott, Egypt maintained some trade relations with Lebanon and to some extent with Jordan, especially after 1984.

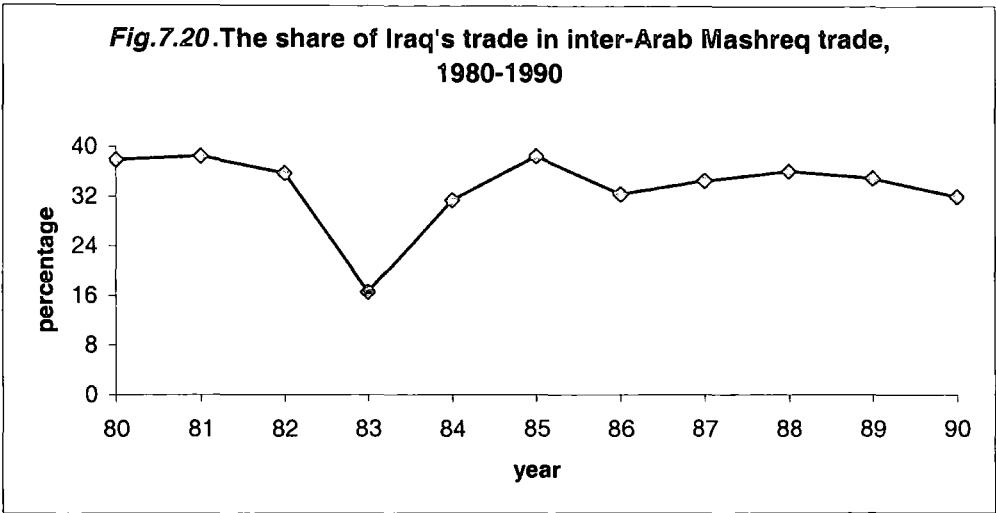
On the other hand, the regional trade decreased sharply between 1981 and 1983 both in real value and in percentage of total foreign trade. The value of the regional trade jumped down from around \$3 billion in 1981 to less than \$575 million in 1983. The reasons were owing to a sharp decrease in Iraqi trade with both Lebanon and Syria. Actually, trade relations were halted between Syria and Iraq since 1983 until the end of the decade due to a political and diplomatic break off in 1980 accentuated primarily by the Iran-Iraq war.

After 1983, the inter-Arab Mashreq trade started increasing in percentage of total trade and in absolute value. It jumped up from \$570 million in 1983 to reach more than \$1950 million in 1989. Then, in 1990 it exceeded \$2 billion; however its percentage of the total foreign trade decreased because of a tremendous increase in the foreign trade of both Egypt and Syria in which imports increased highly between 1989 and 1990. After 1983, at the regional level, the halt in trade relations between Iraq and Syria was compensated by an increase in the bilateral trade of Jordan and Iraq. Throughout the 1980s this bilateral trade kept increasing to attain \$600 million at the end of the decade. Generally speaking, the second oil boom⁴⁰⁴ had also its impact on regional trade percentage. It raised Iraqi oil revenues in the beginning of the 1980s, its total trade per se; therefore, it increased the value of the total foreign trade of the Arab Mashreq states.

On the other hand, the sharp decrease in oil price after the second half of the 1980s has apparently the opposite outcome on the regional trade percentage. In effect, the rise of the regional trade was owing to the reduction of the oil price, since the foreign trade of Iraq decreased substantially and, therefore, the share of regional trade increased without any real increase in regional trade value.

⁴⁰⁴ For more on the oil price changes in the 1970s and 1980s refer to Alan Richards and John Waterbury, pp. 55-62.

By examining the composition of the regional trade in terms of the shares of individual countries, and beginning with Iraq, it is obvious that the Iraqi share augmented during this period as figure 7.20 shows.



Source: Compiled by the author using sources listed in figure 7.19.

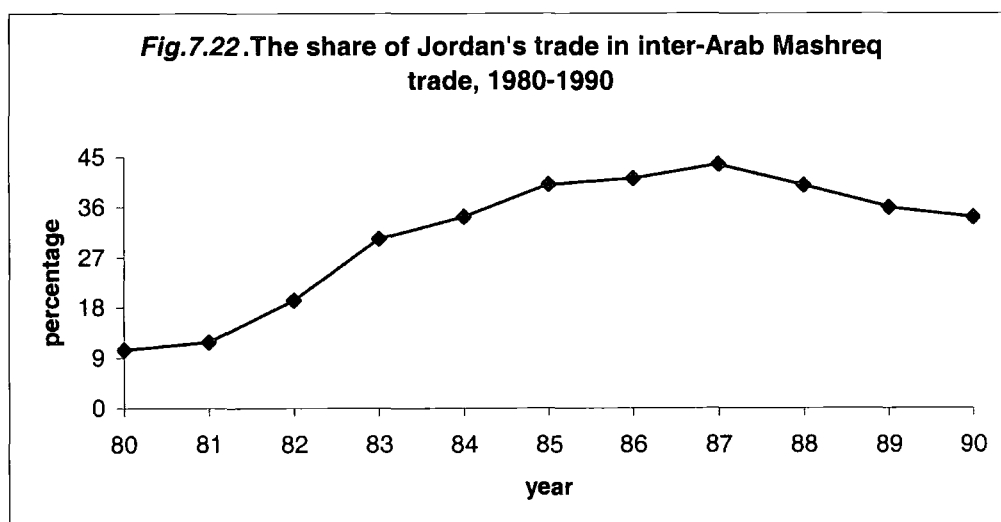
The share of Iraqi trade to the regional trade was relatively the highest of the Arab Mashreq states. Iraq maintained an average share that exceeded 30 per cent of the regional Mashreq trade. Iraqi trade was high with Syria before 1983, and then it halted afterwards. Moreover, its trade relations increased with Jordan after both countries enjoyed warm diplomatic relations during the Iran-Iraq war; Jordan provided the strategic Aqaba port for the Iraqi oil shipping after the closure of Syrian borders against the Iraqi oil shipment. Even though Iraq maintained the highest share, however, its regional trade formed an average of 3 per cent of its foreign trade.

Egypt's share, although fluctuating as figure 7.21 shows, was maintained relatively minimal. It showed a steady increase after 1985 when Egypt was reintegrated in the Arab World and its relations were coming to normal with most Arab states. In spite of the Arab boycott, Egypt reserved fairly considerable trade relations with Lebanon. Egypt's regional trade was negligible compared to its foreign trade since it only made up 0.5 per cent of its foreign trade from 1981 until 1985. This percentage rose to around 1 per cent after 1985.



Source: Compiled by the author using sources listed in figure 7.19.

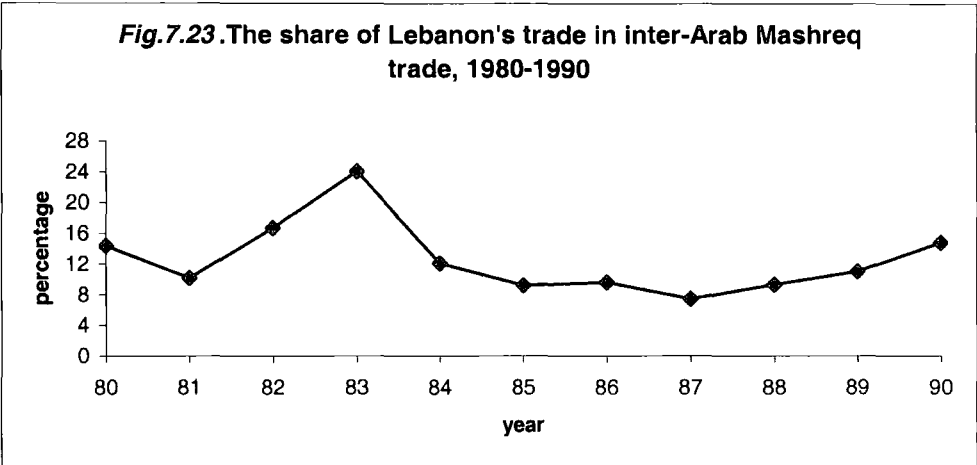
Jordan's regional trade increased effectively after a boost in trade relations with Iraq, and it maintained moderately steady trade relations with all other Arab Mashreq states. Actually, Jordan's share kept moving up throughout the 1980s, as figure 7.22 demonstrates, to reach its highest level in 1987 when it formed approximately 44 per cent of the regional trade.



Source: Compiled by the author using sources listed in figure 7.19.

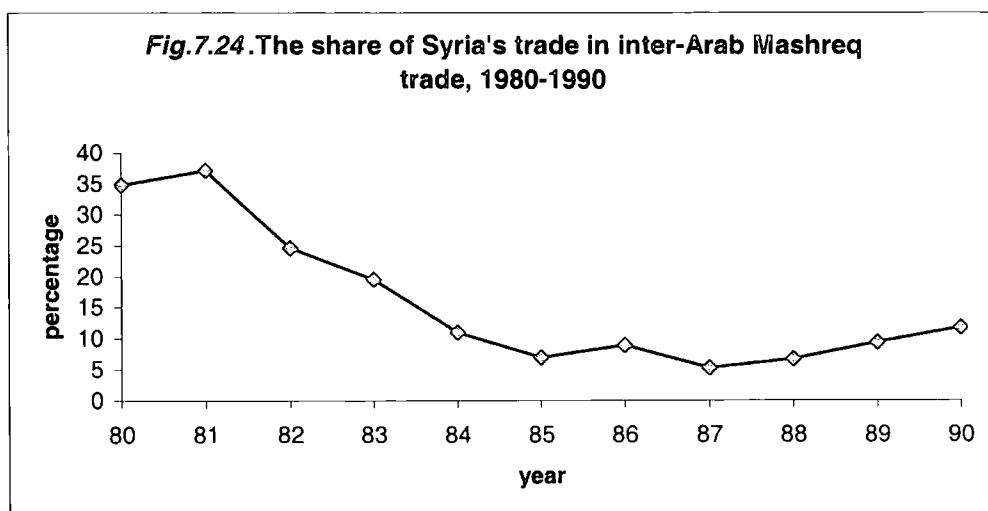
On average and after 1984, the share of Jordan's trade attained 38 per cent of the inter-Arab Mashreq trade. However, its regional trade formed 17 per cent of its foreign trade in the same period.

The shares of Syria and Lebanon, as figures 7.23 and 7.24 show, dropped to less than 25 per cent combined after forming 60 to 70 per cent of the regional trade in the previous decades.



Source: Compiled by the author using sources listed in figure 7.19.

The regional trade of Lebanon, which was still in a civil war, suffered from the Israeli invasion of 1982 after which imports and exports decreased. And later on, at the end of the civil war, Lebanon's regional share increased and it began moving up steadily as of 1987 owing to a surge in the Syrian-Lebanese trade value. Their bilateral trade mainly flourished due to a restructuring of the Lebanese political system after the civil war under the Syrian supervision. Compared with the previous period, the regional trade of Lebanon with the Arab Mashreq dropped to an average of less than 7 per cent of Lebanon's foreign trade.



Source: Compiled by the author using sources listed in figure 7.19.

As for Syria, its share jumped down dramatically after its trade was brought to an end with Iraq in 1983 and it barely existed with Egypt. It only formed around 8 per cent after 1985.

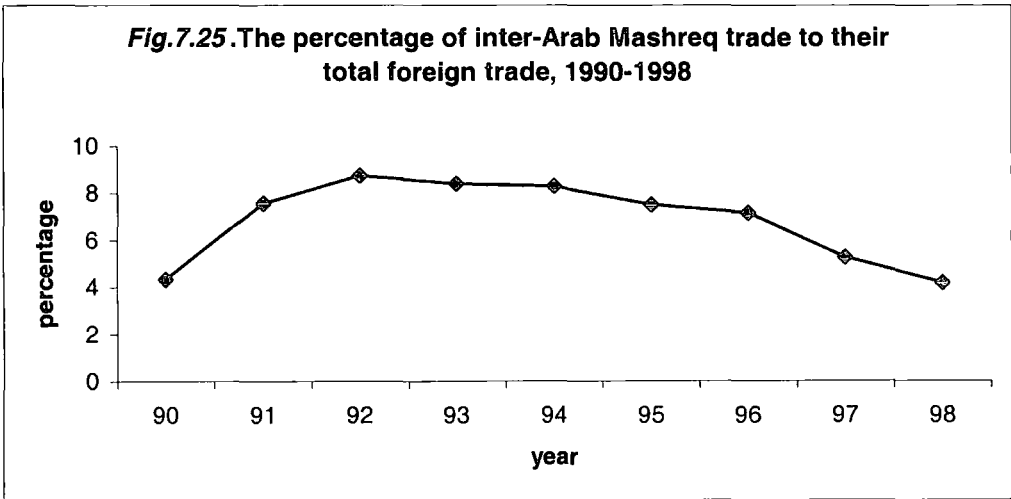
As a matter of fact, the Mashreq regional trade during the 1980s was purely maintained by three major bilateral trade relations: the Iraqi-Jordanian, the Syrian-Lebanese and to a lesser extent the Egyptian-Lebanese bilateral trade relations. Moreover, a striking change in the direction of imports and exports was noticed in the bilateral trade of Lebanon and Syria after the second half of the 1980s. Whereas the Lebanese exports to Syria constituted around 75 per cent of the total bilateral trade in 1985; however, in 1988 the Lebanese imports from Syria formed around 75 per cent of their bilateral trade. In 1989 and after a *Pax Syriana* dominated Lebanon, the bilateral trade of these Arab neighbours doubled in 1989 and tripled in 1990 to reach around \$200 million compared to their bilateral trade in 1988.

Overall in this period, the regional trade percentage was lower than the previous periods, and it decreased drastically after 1983. However, as a result of the lowering oil price effect during the post-oil booms the regional trade percentage slightly increased. Moreover, the distribution of shares overturned; the regional shares of both the Jordanian and the Iraqi trade formed the bulk of the regional trade, which combined, exceeded 70 per cent in many years of this period. The share of the duo Jordan-Iraq in this period substituted the regional share of Lebanon and Syria in the previous decades in forming the larger portion of the Arab-Mashreq trade.

Moreover, the proportions of regional trade of the Arab Mashreq states as percentages of their foreign trade have also diminished during this period.

7.6 Trade trends during the period of economic liberalisation, 1991-1998

In this period, the average percentage of the regional trade to the total foreign trade of the Arab Mashreq reached 7.13 per cent. The highest percentage attained 8.40 per cent in 1993 and the lowest was 4.16 per cent in 1998 as figure 7.25 shows. The value of the inter-Arab Mashreq trade reached its highest level in 1996 amounting \$3 billion; however, the low percentage achieved in that year was mainly because of an increase in the total foreign trade of both Syria and Lebanon. In fact, the international sanctions imposed on Iraq since 1991 increased the regional trade percentage since they decreased dramatically the foreign trade of Iraq.



Source: Compiled by the author by using trade data from the Arab Monetary Fund, *The Foreign Trade of the Arab Countries, 1988-1998*, Issue No. 17, Abu Dhabi, AMF, 1999. However, the bilateral trade data of Jordan and Iraq for the years 1997 and 1998 was taken from the *External Trade Bulletin for the ESCWA Region*, 10th Issue. Moreover, the total imports and exports of Egypt were taken from the *1998 International Trade Statistics Yearbook*, Vol. I, Trade by Country, New York, United Nations, 1999.⁴⁰⁵

Moreover, as figure 7.25 above depicts, the period from 1991 until 1996 showed a relatively more stable percentage, whereas a decrease in regional trade percentage occurred starting from 1996. In fact, the inter-Arab Mashreq trade dropped from \$3 billion in 1996 to around \$2265 million in 1997 and around \$1850 million in 1998. The

⁴⁰⁵ These sources were also used to compile the charts in figures 7.26, 7.27, 7.28, 7.29 and 7.30.

reasons were the decrease in the regional trade of both Jordan and Iraq, and to some extent the decrease in the regional trade of both Lebanon and Syria.

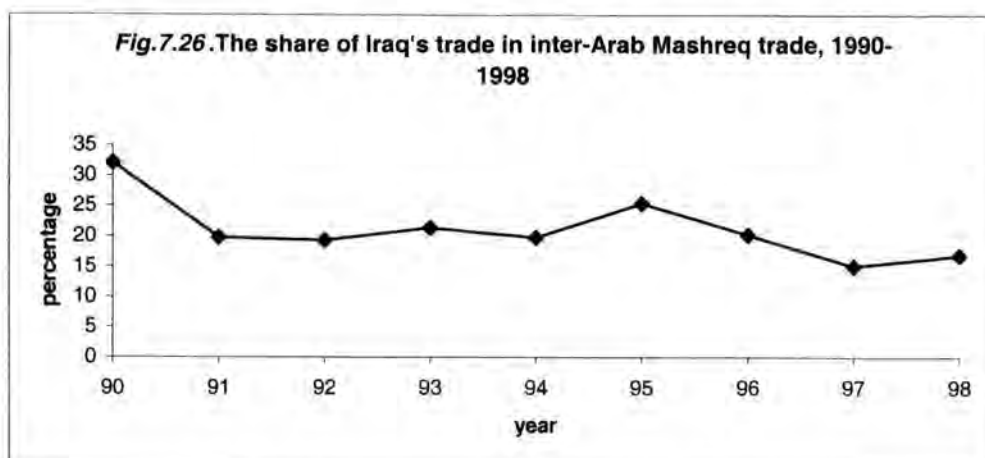
The Arab Mashreq regional trade share fell after 1996, although that year witnessed an improvement of inter-Arab relations after a period of severe political rift between the Arab Mashreq states caused by the Iraqi invasion of Kuwait when Syria and Egypt joined the international coalition against Iraq whereas Jordan sided with Iraq.

Moreover, during the period from 1990 to 1996 the Arab summits were blocked, and Jordan, Lebanon and Syria joined the Madrid peace talks with different strategies in 1991, and without any role of the LAS. This period witnessed no trade relations between Iraq and Syria, and a very limited trade between Iraq and Lebanon, and Iraq and Egypt. However, the Iraqi-Jordanian trade was relatively very significant. These patterns derived from the political consequences of the Iraqi invasion of Kuwait, and mainly from the international sanctions imposed on Iraq afterwards.

In spite of the severance of political relations between the Arab Mashreq states, the percentage of regional trade was higher than that of the 1980s. In addition to the impact of the international sanctions imposed on Iraq in 1990, it could be argued that the liberalisation programmes adopted by Egypt, Syria and Jordan enhanced regional trade.

Moreover, in this period trade relations between Lebanon and Syria remained relatively developed and even expanded, and trade relations between Syria and Jordan rose mostly after 1994, although Syria criticised its peace treaty with Israel in 1994. Egypt, after being reintegrated in the regional system, maintained a modest trade with the Mashreq.

In discussing the trends in the regional trade of the Mashreq, it is important to examine the share of each country in the regional trade. As figure 7.26 shows the share of Iraq to the inter-Arab Mashreq trade maintained an average of 20 per cent from 1991 until 1994, and then it rose to 25 per cent in 1995, and it decreased afterwards as of 1996 to reach an average of 16 per cent in the years 1997 and 1998.



Source: Compiled by the author using sources listed in figure 7.25.

Ostensibly, the above figure is misleading, since the regional trade of Iraq was entirely its bilateral trade with Jordan. Iraq maintained a relatively high bilateral trade with Jordan after the imposition of the sanctions in 1991. Their highest bilateral trade value exceeded \$700 million in 1995. Jordan was the most important legal trade partner of Iraq after the imposition of the international sanctions,⁴⁰⁶ and probably its main illegal partner for trans-shipment.

The share of Egypt to the regional trade, as figure 7.27 shows, was relatively minimal. Egypt's share was around 6 per cent of the total regional trade until 1996, and then it started increasing afterwards to exceed 10 per cent in 1998. Its share increased mainly because of the proceeding of its internal liberalisation programme that increased its whole trade during the 1990s.

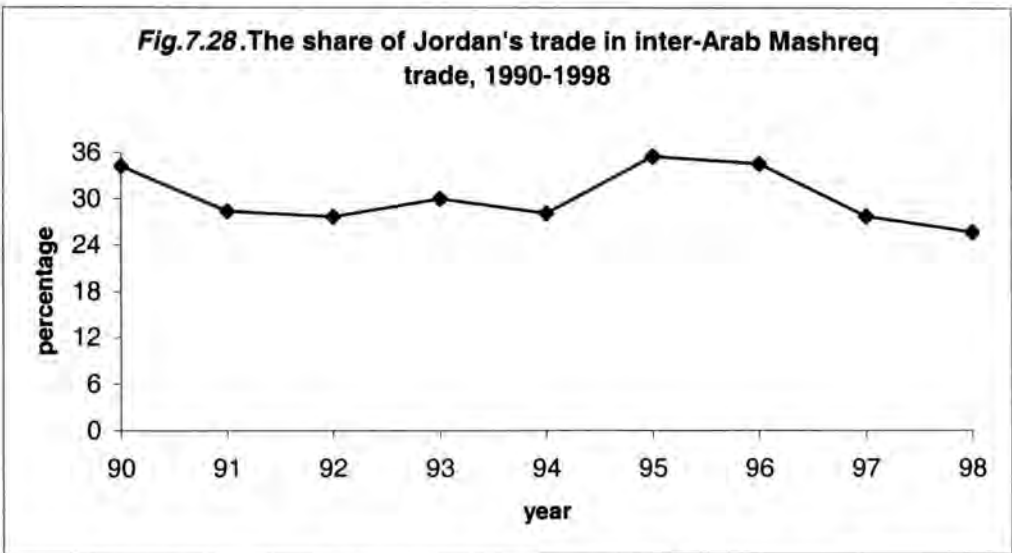


Source: Compiled by the author using sources listed in figure 7.25.

⁴⁰⁶ Laurie Brand, p. 150.

Although Egypt was officially readmitted to the LAS, however, in terms of its regional trade, it was not reintegrated as in the past. In fact, its regional trade with the Mashreq states maintained an average of 1 per cent of its total trade during this period. Moreover, its trade was evenly distributed between Jordan, Lebanon and Syria. Its highest regional trade value reached \$195 million in 1998, which only formed 1.01 per cent of its total trade.

Jordan's share was the highest during this period although it decreased compared to the previous period. It maintained an average of 30 per cent of the regional trade with a slight increase in 1995-1996, and a decrease in 1998 as figure 7.28 clarifies below.

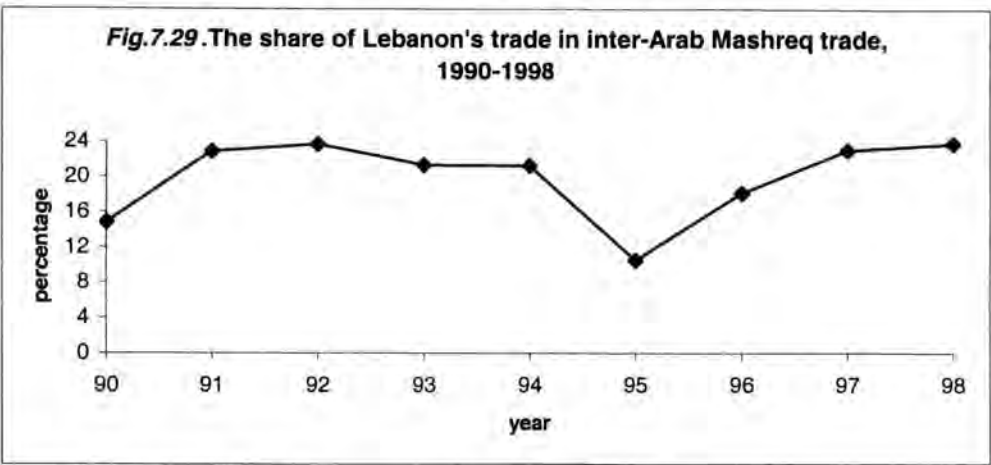


Source: Compiled by the author using sources listed in figure 7.25.

Jordan maintained relatively extensive trade relations with all the Arab Mashreq states, especially with Iraq. Its bilateral trade with Syria developed greatly after 1993 to reach around \$200 million in 1996, and then, it decreased in 1998. Moreover, after 1996 the Jordanian-Iraqi trade dropped to the half, around \$300 million, compared to \$600 million in previous years. Jordan trade relations with both Lebanon and Egypt were modest. Its highest regional trade exceeded \$1 billion when it maintained, in that year, remarkable trade relations with both Syria and Iraq. The regional trade of Jordan constituted around 30 per cent of the inter-Arab Mashreq. Moreover, its regional trade formed around 16 per cent of its total trade until 1997, and afterwards, it decreased to around 10 per cent during this period of study.

The share of Lebanon increased after 1990, since by that year Lebanon recovered from its long civil war. As figure 7.29 reveals, Lebanon's share exceeded 20 per cent, with

exception the years 1995 and 1996, when it decreased to 10.5 and 18.16 per cent respectively.

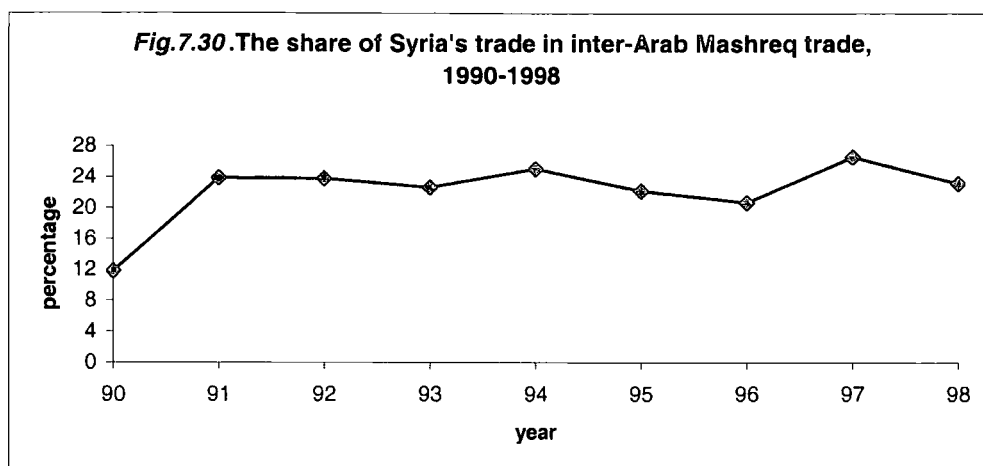


Source: Compiled by the author using sources listed in figure 7.25.

Lebanon maintained relatively tremendous trade relations with Syria. Their bilateral trade upheld, on average, a value of \$400 million, except in 1995 when it dropped into \$188 million. Consequently, Lebanon's regional share dropped in that year. In fact, Lebanon's trade with Syria formed more than 80 per cent of its regional trade with the Mashreq, and it also formed around 8 per cent of its total trade. Basically, bilateral exchange was not equally distributed since Lebanon imported much more than it exported to Syria. The imports from Syria reached more than 90 per cent of their bilateral trade.

Lebanon's regional trade formed around 10 per cent of its total trade from 1991 until 1995, and then it decreased to around 5 per cent until the end year of the study, mainly because of a sharp increase in Lebanon's foreign trade, which was boosted by different reconstruction plans of the successive Prime Minister's Hariri governments. Moreover, the bilateral trade of Lebanon with both Jordan and Egypt was modest during that period.

Finally, the share of Syria came second after the share of Jordan in this period. It maintained an average of 23 per cent as figure 7.30 shows below, and it was characterised by a comparative stability with respect to other countries' shares.



Source: Compiled by the author using sources listed in figure 7.25.

In this period, the share of Syria in the inter-Arab Mashreq trade increased. The reasons were mainly because of some improvement in political and economic relations with Egypt, and the restructuring of the political system in Lebanon to fit Syria's economic and political benefits. Notwithstanding, the regional trade of Syria also increased due to the promulgation in 1991 of law number 10 that reduced restrictions on both imports and exports. Syria's trade with Lebanon formed around 70 per cent of its regional trade with the Mashreq. Lebanon became a substituted market for Syria after the collapse of the Soviet Union and the Eastern Bloc. Moreover, Syria improved its trade relations with Jordan during that period to exceed \$200 million in 1997, and it maintained a modest trade with Egypt. The regional trade of Syria with the Arab Mashreq formed around 7 per cent of its total trade.

During this period the percentage of the regional trade to the total trades of the Arab Mashreq states slightly increased, compared to the period of the 1980s. Moreover, the distribution of shares and their percentages of foreign trade remained similar, except for Iraq, which faced international sanctions after 1990. In fact, its regional trade formed a huge proportion of its foreign trade to exceed 60 per cent in some years.

7.7 Conclusion

In analysing the trade trends of the whole period, starting from 1952 and ending in 1998, some concluding remarks are worth noting. First, the percentage of the regional trade of the Arab Mashreq states to their total trade was decreasing continuously, except

in the last period from 1991 until 1998, when it showed a slight increase. But still its percentage was not considerable and it did not exceed previous percentages.

Secondly, the distribution of the shares varied during the period of study. In the 1950s and 1960s, the shares of Lebanon and Syria formed around 60 to 70 per cent of the regional trade, and in the 1970s and the 1990s they constituted only 50 per cent. However, in the 1980s they only formed around 25 per cent of the regional trade, whereas, the shares of Iraq and Jordan formed around 70 per cent in this decade. The share of Egypt was fluctuating between 6 and 12 per cent throughout the entire period.

Moreover, during the whole period, the regional trade of Iraq and Egypt were minimal compared to their foreign trade; they were less than 4 per cent on the average. However, the regional trade of Jordan dropped from 30 per cent of its total trade in the 1950s to an average of 17 per cent afterwards throughout the whole period of study. As for Lebanon and Syria, their shares were reduced from a range of 20 to 30 per cent, in the 1950s to less than 10 per cent in the subsequent decades until the ending of the study.

Moreover, after reviewing the impact of the political developments, the external factors and the regional attempts at promoting regional trade in Arab Mashreq trade, it is clear that such factors had different effects in different periods.

The impact of political developments had a varying effect on the regional trade. It slightly decreased regional trade during the 1950s and 1960s due to political rivalry and suspicion between the Arab Mashreq states, and it had a significant damaging effect on regional trade during the Iran-Iraq war when political and economic relations halted between Iraq and Syria. The rise of the bilateral trade of Iraq and Jordan compensated for that loss to some extent. Moreover, a disastrous political event - the 1967 war - proved to have a positive impact on the regional trade. In fact, the political developments influenced more the bilateral trade relations, and consequently the regional trade of the Arab Mashreq. On many occasions, Arab states closed their borders against each other, breaking diplomatic relations, and thus weakening the regional trade.

Furthermore, the impact of the external factors on the regional trade such as the oil price changes in the 1970s and the 1980s, and the liberalisation programmes of the 1990s were of greater significance than the political developments. In effect, the rise of oil price in the 1970s after the oil booms in 1973 and 1979 decreased the regional trade

percentage for two main reasons. First, the increase in oil price directly boosted state revenues especially for Iraq, and to some extent Syria and Egypt, and it increased indirectly the revenues of states such as Lebanon and Jordan from remittances and aid. This increase in state revenues augmented their spending and purchasing of commodities mainly from the industrialised West to meet their new demands of development. Secondly, since the study focused on the percentage of regional trade, the increase in the oil price raised the values of foreign trade of the oil exporting states, and consequently, decreased the share of the regional trade. By a similar analogy, the decrease in oil price had the reverse impact on the regional trade.

The impact of the liberalisation programmes was of some significance during the 1990s, and it was mainly behind the increase of the regional trade in that period. These programmes helped to decrease some restrictions to trade, but they did not re-orient the trade of the Arab Mashreq through a regional track.

Finally, the attempts and efforts to promote regional trade were not significant enough. In spite of some increase in the regional trade after the application of the 1953 agreement to promote trade and the establishment of the ACM, the results shown in this chapter did not demonstrate that such attempts played significant roles. The fact is they were politically inspired and more based on rhetoric and exigencies of specific political situations, and they were not seriously applied by member states. The ACM itself was an attempt to break Egypt's isolation after the collapse of the UAR. Moreover, these attempts were not successful in promoting the regional trade of the Mashreq since they were not economically or commercially oriented.

CHAPTER EIGHT

A HISTORICAL ANALYSIS OF THE IMPACT OF TRADE ON REGIONAL INTEGRATION IN THE ARAB MASHREQ

8.1 Introduction

This chapter analyses the effect of regional, multilateral and bilateral trade on regional politics and integration in the Arab Mashreq by employing a transactionalist approach. Integration is understood in its political and economic aspects. Therefore, any attempt of unity or alliance, or even rapprochement will be considered as an aspect of political integration, and any ratification of economic agreements, or establishment of a free trade area, a customs union and a common market will be regarded as an element of economic integration. However, economic and political integration will not be examined separately since this study is more a qualitative application of some aspects of the transactionalist approach to regional integration in the Arab Mashreq.

In other words, while studying the impact of trade on regional integration any attempt to regional institutional integration, such as fusion of states, establishing new regional economic setting, and any closure in political relations to form unstable or stable political alliances, will be considered since transactionalists themselves did not focus on the end stage of integration. Effectively, inter-Arab Mashreq trade is studied as a *condition* of integration in the region. It is considered the independent variable and major attempts at integration will be inspected as dependent variables.

The analysis of the impact of trade on regional integration will follow the time series organised in chapter seven. Therefore, this chapter will be divided into five sections analysing the following periods; 1952-1960; 1961-1970; 1971-1980, 1981-1990, and 1991-1998. However, these periods are not studied separately; some interpretations are done on events that fall within two or more periods.

8.2 The impact of trade on regional integration during the period of Arab revolutions, 1952-1960

At the regional level two major attempts at integration will be studied in this period. The first is the ratification of the 1953 agreement to facilitate trade and transit, and the second is the drafting in 1957 of the Arab Economic Unity Agreement. However, at the bilateral level many other attempts will be examined.

During this period, as figure 7.1 showed in chapter seven, the inter-Arab Mashreq trade had limited significance. However, taking into consideration that during this period Arab states were still newly politically sovereign, struggling for economic independence and fighting every aspect of "imperialism", an average of 10 per cent as a base for regional trade was far from minimal, especially when it exceeded that level at the bilateral level, like for example, the bilateral trade of Syria and Lebanon. This average regional trade did not occur by chance. It implied that a certain level of integration existed between these states. Therefore, it formed an advantageous condition at regional integration if political will had existed during that period.

When the trade agreements of 1953 was concluded, it is debatable whether the increase in the regional trade in 1953, to reach its apex during the 1950s, prompted Arab Mashreq states to ratify in the same year different conventions and agreements to facilitate regional trade. However, it could be considered as a condition that pushed towards more serious attempts to enhance regional trade since the potential existed and it was testified by the growth of trade in that year.

Moreover, it is also arguable whether the level of trade between 1953 and 1957, that is, after the 1953 agreements, encouraged the endorsement of the Arab Economic Unity Agreement of 1957. However, taking in consideration the percentage of regional trade to the total trade of two leading nations such as Egypt and Iraq, in which regional trade constituted on the average no more than 3.5 per cent during that period, it would be certain that the impact of regional trade was very limited in facilitating integration steps. In fact, in both countries, there was no proper regional trade to protect, and therefore, there were no interest groups, mainly regional traders, to push for such agreements. Consequently, many other considerations were more important than the regional trade as a favourable condition that encouraged integration.

Both the above attempts for economic integration coincided with two important dates in the history of the European Union. The first in 1953 came after the establishment of the European Commission for Steel and Coal (ECSC) in 1951, and the approval of the Arab Economic Unity Agreement in 1957 also coincided with the ratification of the Treaty of Rome in 1957 establishing the EEC.⁴⁰⁷ These two attempts form a proof that the external factor, or namely imitating Europe, played a more important role in the Arab integrational attempts.

Moreover, at the bilateral level and during the period of the 1950s there was a political power struggle between two major blocs in the Arab World,⁴⁰⁸ the Hashemite bloc comprising Jordan and Iraq and the anti-Hashemite bloc including Egypt, whether monarchic or republican, and Saudi Arabia.⁴⁰⁹ The apex of this struggle materialised with the formation of the Baghdad Pact. "The Baghdad Pact concluded in 1955, was a security instrument that included three of Iraq's non-Arab neighbours - Turkey, Iran and Pakistan - as well as its foreign protector, Great Britain, but no other Arab countries."⁴¹⁰ The Pact reflected a struggle between two different scenarios of Arab security and Arabism: the scenario of Iraq's Nuri al Said and that of Egypt's Nasser. The former looked to the West for protection from regional hegemony whereas the latter endorsed a non-alignment strategy and considered the West a colonial power. Eventually, in this competitive struggle, Nasser won the support of other Arab leaders and states and isolated Iraq. Reflecting on the impact of the Baghdad Pact on Arab politics, Barnett wrote, "the Baghdad Pact was a transformative event in Arab politics. This was the moment that Nasser found his footing, sharpened his message and inaugurated a decade in which he possessed the rare ability to set the political agenda for an entire region and generation."⁴¹¹

In addition, the power struggle reached its climax by the establishment of new unstable political settings at the end of the 1950s. In 1958, two Arab federations were created in the Arab World: the Arab Federation of Jordan and Iraq with their Hashemite rulers and their "subordination" to Great Britain, and the UAR that was formed by Egypt and

⁴⁰⁷ For more detail on the historical evolution of the European Economic Community refer to Neill Nugent, *The Government and Politics of the European Union*, 4th edition, Basingstoke, Macmillan, 1999, pp. 3-21.

⁴⁰⁸ For more on Arab alignments, refer to Alan R. Taylor, p. 122- 4.

⁴⁰⁹ P.J. Vatikiotis, p. 79.

⁴¹⁰ Phebe Marr, p. 189.

⁴¹¹ Michael Barnett, p. 119.

Syria. Whereas the UAR lasted for at least three years, the Arab Federation of Jordan and Iraq had bitterly disintegrated with the removal of Nuri As-Said's regime in Iraq by General Quassim later in 1958.⁴¹²

This historical background is necessary to examine whether regional trade had played an effective role in the alliance formation, especially taking the case of Jordan and Iraq in the formation of the Hashemite bloc during the 1950s. Table 8.1 shows the bilateral trade of Jordan and Iraq in the period preceding the formation of the Hashemite bloc and before the establishment of the Arab Federation of Jordan and Iraq. It also reveals the percentage of this trade to each country's foreign trade.

Table 8.1. The bilateral trade of Jordan and Iraq during the formation of the Hashemite bloc.

	1952	1953	1954	1955	1956	1957	1958	1959	1960
Bilateral trade in \$ million ⁴¹³	2.20	2.51	2.49	5.18	3.67	5.04	4.42	1.09	0.55
% of bilateral trade to Iraq's trade	0.96	1.01	0.36	0.68	0.46	0.73	0.51	0.12	0.06
% of bilateral trade to Jordan's trade	4.15	4.37	3.92	6.18	4.01	5.02	4.20	0.40	0.42

Source: Compiled by the author using data from the following sources: Data on trade for 1952-53 were taken from the *Yearbook of International Trade Statistics, 1954*, U.N., New York, 1955. And data from 1954-57 were taken from the *Yearbook of International Trade Statistics, 1957*, Vol. 1, U.N., New York, 1958. Also data from 1958-60 were taken from the *Yearbook of International Trade Statistics, 1960*, U.N., New York, 1962.

Table 8.1 obviously showed that trade had a minor impact on the Hashemite bloc formation. At best, the bilateral trade of Jordan and Iraq reached only 1 per cent of Iraq's trade, and did not reach 7 per cent of Jordan foreign trade. Such very small percentages reflected how high politics, whether security or strategic considerations influenced the formation of this bloc. Moreover, if trade relations were much reduced after 1958, it was not because of the disintegration of the Arab Federation, but for reasons mainly related to the isolationist orientation, as mentioned earlier in chapter seven, adopted by the Quassim's regime in Iraq during the period from 1958 until

⁴¹² Ibid., pp. 131-3.

⁴¹³ Current prices.

1963.⁴¹⁴ Iraq maintained during this period cold relations with almost all Arab Mashreq states, and its trade share (to the regional trade) was reduced from 11.20 per cent in 1958 to 7.62 in 1959 to 4.76 in 1961. However, after the removal of Quassim's regime in 1963, the share of Iraq's trade to inter-Arab Mashreq trade lifted up to reach 20.51 per cent in 1964.

Furthermore, the impact of trade at the bilateral level will also be reviewed in two other examples. The first examines the effect of the bilateral trade of Egypt and Syria on the eve of the creation of the UAR in 1958. The second example studies how far considerable trade relations between Lebanon and Syria in the 1950s had pushed towards the realisation of any scheme of integration between them.

Table 8.2 below depicts the bilateral trade of Syria and Egypt during the 1950s and early 1960s. It also shows the percentages of bilateral trade to the foreign trade in each country. The period of study is extended a little to the early 1960s to compare the bilateral trade of Syria and Egypt in three stages: the first two are the periods before and during the establishment of the UAR, and the third is the period after its disintegration in 1961.

Table 8.2. The bilateral trade of Syria and Egypt, 1955-1962

	1955	1956	1957	1958	1959	1960	1961	1962
Bilateral trade in \$ million ⁴¹⁵	5.28	9.45	12.89	12.63	30.85	38.14	30.91	2.29
% of bilateral trade to Egypt's foreign trade	0.57	1.00	1.27	1.12	2.91	3.20	2.70	0.20
% of bilateral trade to Syria's trade	1.72	2.90	3.99	4.10	10.02	12.39	11.11	0.55

Source: Compiled by the author using data from the following sources: Data on trade for 1952-53 were taken from the *Yearbook of International Trade Statistics, 1954*, U.N., New York, 1955. And data from 1954-57 were taken from the *Yearbook of International Trade Statistics, 1957*, Vol. 1, U.N., New York, 1958. Also data from 1958-62 were taken from the *Yearbook of International Trade Statistics, 1960*, U.N., New York, 1962, and from the *Yearbook of International Trade Statistics, 1963*, U.N., New York, 1965.

⁴¹⁴ For more on the subject refer to Michael Barnett, pp. 136-7.

⁴¹⁵ Current prices.

As table 8.2 illustrates, the bilateral trade of Egypt and Syria was increasing between 1955 and 1958. However, its percentage of the total foreign trade was minimal. Therefore, with a percentage of less than 1.5 per cent for Egypt, trade can never be considered as one of the factors behind the establishment of the UAR. Even for Syria, the percentage of this trade to its foreign trade was less than 4 per cent, which is insignificant.

Moreover, it is well known that the reasons behind the establishment of the UAR were more political than economic. The formation of the UAR was mainly pushed by the internal power struggle in Syria. In fact, the Baath party proposed the idea of unity with Nasser's Egypt in 1958 fearing the increasing influence of communists, and their attempts to tighten relations with the Soviet Union. Therefore, a group of army officers visited Egypt to discuss the anticipated plan with Nasser who at first was reluctant to endorse the idea. However, trapped with his previous dialogues and discourses on Arab unity, he had no choice but to accept. Ironically, after only three weeks of discussions the UAR came into being.⁴¹⁶

In fact, the Egyptian-Syrian bilateral trade rapidly increased after the formation of the UAR. However, its relatively high percentage which reached more than 11 per cent of Syria's foreign trade did not stop Syria from accusing Nasser of meddling in its affairs and asking for separation in 1961. The impact of the bilateral trade on both economies was not significant enough to form a bridge which could keep the pace of integration moving in both countries. In fact, lots of other considerations, mainly the divergence in the Syrian Baathists and Nasser's ideologies and their different interpretation of Arab unity, were more decisive in the split of the Union in 1961. Taylor, in this respect argued,

In practice, the political system assured the overwhelming dominance of Abd-al-Nasir in the leadership role and the preponderance of the Egyptian over the Syrian province. But the question of foreign policy was more complex. In theory, the UAR was the nucleus of the United Arab Nation of the future. Its principal *raison d'être* was to serve as a vanguard of the Arab

⁴¹⁶ Alan R. Taylor, p. 33-4.

unity movement. The Ba'ath understanding of this theory was purist and highly doctrinaire.⁴¹⁷

The second example examines the impact of the considerable trade relations of Syria and Lebanon in the 1950s on the occurrence of any attempt at political or economic integration. Table 8.3 below illustrates the bilateral trade of Lebanon and Syria and its percentage of their foreign trade during the 1950s.

Table 8.3. The bilateral trade of Lebanon and Syria, 1952-1960

	1952	1953	1954	1955	1956	1957	1958 ⁴¹⁸	1959	1960
Bilateral trade in \$ million ⁴¹⁹	50.02	48.08	54.20	44.47	56.14	48.04	30.83	35.21	30.15
% of bilateral trade to Lebanon's foreign trade	28.0	26.01	26.77	17.73	19.20	15.60	12.51	11.61	7.51
% of bilateral trade to Syria's foreign trade	19.64	18.02	17.90	14.46	17.26	14.84	10.01	11.43	9.79

Source: Compiled by the author using data from the following sources: Data on trade for 1952-53 were taken from the *Yearbook of International Trade Statistics, 1954*, U.N., New York, 1955. And data from 1954-57 were taken from the *Yearbook of International Trade Statistics, 1957*, Vol. 1, U.N., New York, 1958. Also data from 1958-60 were taken from the *Yearbook of International Trade Statistics, 1960*, U.N., New York, 1962.

The bilateral trade of these two neighbouring countries was relatively high. It was often more than a quarter, and sometimes more than a fifth of the foreign trade of Lebanon and Syria, respectively. Moreover, it constituted the bulk of the regional trade of the Mashreq region during the 1950s as demonstrated earlier in chapter seven. Therefore, it is expected, according to a transactionalist examination, that relatively close trade relations between Lebanon and Syria, in addition to other attributes of common language, history and closer geography, must constitute, in theory, a favourable condition for integration.⁴²⁰ However, in practice, this did not happen, and at the end of

⁴¹⁷ Ibid., p. 34.

⁴¹⁸ Table 8.3 illustrates how trade between Lebanon and Syria decreased noticeably in 1958 after the formation of the UAR.

⁴¹⁹ Current prices.

⁴²⁰ It is crucial to reiterate that the main aim of the transactionalist approach is to study *the conditions* of integration.

the decade, the political relationships between Lebanon and Syria worsened in 1958, when the Lebanese government accused Nasser of meddling in its affairs via Syria.

Concluding on the impact of trade on regional integration in the Arab Mashreq during the 1950s, it was apparent that trade and integration had gone unfavourably. All attempts at integration at both the regional and bilateral levels - whether closer or strategic alliances and relations, or even the fusion of states - occurred between states which had relatively trivial bilateral or regional trade, like for example, the bilateral trade of Syria and Egypt before the formation of the UAR, and the bilateral trade of Jordan and Iraq during the establishment of the Hashemite bloc. And such trades constituted tiny portions of the foreign trade of the respective states. On the other hand, states such as Lebanon and Syria, where bilateral trade formed an additional favourable condition for integration, did not witness any aspect of integration during this period.

8.3 The impact of trade on regional integration during the period of Arab socialism, 1961-1970

The 1960s began with a blow to Arab regional integration efforts after Syria proclaimed its withdrawal from the UAR on 28 September, 1961. However, later on, this decade ushered different attempts in the history of Arab Mashreq integration. Three of them are examined in this section. The first started in 1963 after a revolutionary change of political regimes in Syria and Iraq. Unity talks went ahead for a short period involving Syrians, Iraqis and Egyptians. The second ambitious attempt was the formation of the ACM in 1964. And the third attempt also began in 1964 after the announcement of the first Arab Summit meeting in Cairo.

In 1963, successive *coups d'état* brought down regimes in Syria and Iraq. Consequently, revolutionaries in both states re-opened discussions on Arab unity and Arab political integration with Egypt. The new political aspirations of leaders and their lack of legitimacy were the driving factors behind such integrative attempts. Both leaders in Syria and Iraq were officers; most of them were ideological Baathists. Therefore, integration efforts were never interpreted in a systemic and progressive way.

In fact, by examining regional trade between Syria, Iraq and Egypt and its proportion of the total foreign trade in each country, it is clear that trade did not constitute a favourable or even an acceptable condition to encourage integration, especially after the

bitter experience of the UAR disintegration between Syria and Egypt that hugely re-oriented trade in Syria. Table 8.4 reveals how minimal was the multilateral trade between Syria, Iraq and Egypt and how insignificant was its percentage of the total foreign trade in each country.

Table 8.4. The multilateral trade of Syria, Iraq and Egypt, 1962-1963

	1962	1963
Multilateral trade in \$ million ⁴²¹	31.81	38.95
% of multilateral trade to Syria's foreign trade	7.68	9.40
% of multilateral trade to Iraq's foreign trade	3.02	3.54
% of multilateral trade to Egypt's' foreign trade	2.79	2.71

Source: Compiled by the author using data from the *Yearbook of International Trade Statistics*, 1963, U.N., New York, 1965.

The percentage of the multilateral trade to the total individual trade was higher in Syria than in both Egypt and Iraq, but the fact that it was still low meant it had a minimal impact on the unity talks in 1963. Eventually, unity talks failed mainly because of the accumulated distrust and suspicion between Egypt and Syria. Egypt focused more on the “unity of ranks”⁴²² without any institutional arrangements, whereas Baathists were more ideological in interpreting Arab unity.

As a matter of fact, unity discussions in Egypt were more concerned with culpability assaults, especially between the Syrians and Nasser, and the failure of the talks caused more mistrust and suspect, and revealed the divergence between the protagonists of Arabism, the Baathists and Nasser. Taylor confirmed,

Much of the dialogue involved an airing of complaints, particularly those of Abd al Nasser against the past performance of the Syrian Baath, which he sharply criticized for the leaving

⁴²¹ Current prices.
⁴²² Refer to Michael Barnett, pp. 140-1.

of the UAR government in December 1959. It was clear that the Egyptian leader had a low opinion of the Baath and considered its members untrustworthy and naïve.... It was also evident that there were ideological and procedural differences between Abd al Nasser and the Baath.⁴²³

After the failure of the unity talks, relations between Egypt and the Baathists in both Syria and Iraq deteriorated. The latter signed a military treaty in the same year signalling a threat to Nasser. Nasser’s credentials were on the verge of being challenged. “For the first time in the post war period, Damascus and Cairo were at odds, and the very idea of Arab unity suffered a severe blow. With Syria and Iraq now both led by Arab nationalist regimes and Saudi Arabia and Jordan aligned with the United States, Egypt was almost completely isolated in the regional system, at the very moment when it embarked on an ambitious experiment in socialist economies.”⁴²⁴ As a result, the move to establish the ACM, even with only three Arab states, in Nasser’s opinion, was an exigent attempt just to recover Egypt’s lost credentials, and to reduce its isolation by finding new markets. In fact, these conditions were much critical than the effect of an ailing regional trade between the ACM members as table 8.5 shows.

Table 8.5. The regional trade of the ACM countries, 1963-1964

	1963	1964
Regional trade of the ACM countries in \$ million ⁴²⁵	82.61	92.48
% of regional trade to total foreign trades	2.65	2.78
% of regional trade to Syria’s foreign trade	9.82	9.04
% of regional trade to Jordan’s foreign trade	14.33	9.86
% of regional trade to Iraq’s foreign trade	0.89	2.39
% of regional trade to Egypt’s foreign trade	0.63	0.56

Source: Compiled by the author using data from the *Yearbooks of International Trade Statistics, 1963 and 1967*, New York, United Nations, 1965 and 1969.

⁴²³ Alan R. Taylor, p. 41.

⁴²⁴ Michael Doran, “Egypt: Pan-Arabism in Historical Context” in L. Carl Brown, p. 112.

⁴²⁵ Current prices.

To reiterate, the regional trade of the ACM countries was not favourable if studied as a condition for regional integration. However, an “Arab setting” different than a federal or a united political scheme has to happen to recover Nasser’s leadership of the region. After all, integration was discussed when “changes in regimes in Damascus and Baghdad and the catalyst of Israel’s challenge in diverting Jordan river waters imposed on inter-Arab relations and the main protagonists in them an interlude of reconciliation.”⁴²⁶

Moreover, following the same line of analysis, the “summits system” attempt for integration was initiated because of the exigent political situation. Although the first Arab summit called upon in 1964 was held to discuss Israeli aggression in diverting Jordan River waters, it was also an instrument to contain Syria, and Iraq to a certain extent, and prevent them from any bid of unification. It was an integrating attempt but with disintegrating intention and effect on the Arab World. In fact, Hinnebusch argued that the summits system emerged to contain Arab radical trends and behaviours that could threaten inter-Arab politics. He wrote

Summits were initiated by Nasser in 1964 in an early acknowledgment that Egypt’s hegemony could not be imposed and that an Arab order had to be negotiated among equal states. The summit system reaffirmed the qualified sovereignty legitimised by the League, pledging participants to refrain from intervention in each other’s internal affairs while attempting to coordinate the Arab states in defence of their common interests. The summit system was initiated less to promote Pan-Arab action than to contain Syria’s demands for it by spreading the responsibility for inaction; as such, it aimed to halt the radicalisation of Pan-Arab norms from inter-Arab ‘outbidding’.⁴²⁷

Similarly, the regional trade examined during this period, as table 8.5 showed, was not a positive condition in pushing for regional integration. It was always politics that directed trade relations.

⁴²⁶ P.J. Vatikiotis, p. 86.

⁴²⁷ Raymond Hinnebusch, “The Middle East Regional System”, p. 42.

Finally, it was ironic that agony and defeat in 1967 had more impact on Arab regional integration than any other ambitious and serious attempt. In fact, the percentage of inter-Arab Mashreq trade reached its highest level ever in 1969 after a reconciliation period caused by the 1967 defeat. In reality, the defeat did not only have material impact, but it had also an ideological one that shaped Arab regimes and societies. Consequently, for a short interlude, a new era of Arab relations began. An era of political realism; talks and attempts for political unity sounded less appropriate. In fact, political leaders in Egypt, Syria and Jordan were mainly concerned about recovering occupied lands (by Israel) after the war. This example would prove how politics *a priori* affected regional relations, since after the 1967 defeat political polarisation decreased and gave way to other aspects of complementarity and cooperation between Arab states and societies.

Moreover, the defeat also amplified local or national identities over the wider Arab regional belonging. This was a real barrier to regional integration discourse that dominated during the past previous decades. In sum, “the constant feuding between Arab states, the failure of the UAR and the unity talks of 1963, and the 1967 war encouraged citizens, however reluctantly and halfheartedly, to transfer their loyalties, if not simply to resign themselves, to the territorial state.”⁴²⁸

For all aforementioned reasons, it seemed definite that regional trade and regional attempts for integration did not match in the 1960s. Arab discourses on regional integration were least influenced by regional trade. However, it was worth noting that unity or even political integration could have happened or succeeded in the Arab World during that period since unification dialogues had much support amongst the general public, in spite of regional trade and how much it influenced the path of integration.

8.4 The impact of trade on regional integration during the period of the oil booms, 1971-1980

Efforts to promote regional integration between the Arab Mashreq states as attempted in the 1950s and the 1960s were not recurred in the 1970s. With the exception of some Arab joint ventures⁴²⁹ established in mid 1970s, no room for regional integration

⁴²⁸ Michael Barnett, p. 163.

⁴²⁹ Arab joint ventures will be extensively discussed in Chapter Nine.

initiatives existed. Moreover, this decade witnessed the demise of Arab dialogues supporting Arab integration.

New conditions in Arab politics led to such changes. First, the repercussions of the 1967 Arab-Israeli war changed Arab discourse from *qawmi* (regional) to *watani* (national - at the level of the nation-state). The national identity had to come first; and Arab leaders were ready to act individually to compensate the losses of lands and prestige lost in the 1967 war. There were regional attempts to show a unified stand against Israel, especially before the 1973 war; however, realising that the price would be too high for Israel to free all occupied lands, states and leaders had to choose the best solution for the survival and legitimacy of their regimes without much attention to the Arab common interests.

Secondly, the successive failures of previous regional attempts to unite or integrate, and the high costs paid by leading Arab states, made the public sceptical about the unity rhetoric. Egypt, the protagonist of Arab integration initiatives, re-oriented itself towards the United States' safe heaven. The Egyptians had paid great sacrifices to the Arab cause; the just solution was felt to be in the hands of the United States because of its influence on Israel. American aid would make up Arab aid, and the Open Door Policy would open Egypt to the whole world, not only to Arab brothers. These slogans were mainly the guidelines of Sadat's foreign policy during the 1970s. Skilfully, he "exploited Egyptians' feeling that they had made enough sacrifices for the Arab cause and their growing resentment of the 'rich and ungrateful' Arabs for whom Egypt had shed blood and treasure but who were niggardly in sharing their unearned new oil wealth with Egypt."⁴³⁰

Of those historical events that shaped inter-Arab Mashreq relations, the 1970s began with a division in political relations between the Arab Mashreq states after a military clash occurred in Jordan between the PLO and King Hussein. Syria and Iraq accused Jordan of betraying the Arab cause, Nasser was more embarrassed; he had good relations with Jordan but as an "Arab defender" he could not accept a military wipe out of the Palestinians. Syria sent its troops to Jordan, which ended up with strained relations between Syria and Jordan. Consequently, Jordan's economy had to pay the

⁴³⁰ Raymond Hinnebusch, "The Foreign Policy of Egypt" in Raymond Hinnebusch and Anoushiravan, p. 94.

price since joint borders were closed.⁴³¹ That experience taught the Jordanians an unforgettable lesson to deepen their economic relations with Syria so as to avoid such closure in the future.

Moreover, at the beginning of the 1970s⁴³² Syria and Egypt had consolidated their foreign policies against Israel before the Ramadan War of 1973; however, it was very clear as table 8.6 shows that bilateral trade had nothing to do with such an integrating effort.

Table 8.6. The bilateral trade of Egypt and Syria, 1970-1973

	1970	1971	1972	1973
Bilateral trade in \$ million ⁴³³	19.3	20.9	20.22	18.71
% of bilateral trade to Syria's foreign trade	3.5	3.35	2.44	1.94
% of bilateral trade to Egypt's foreign trade	1.24	1.24	1.17	0.91

Source: Compiled by the author using data from the *Yearbook of International Trade Statistics 1970-1971*, New York, United Nations, 1973, and the *Yearbook of international Trade Statistics 1974*, Vol 1, Trade by Country, New York, United Nations, 1975.

The Syrian-Egyptian trade was insignificant and formed an irrelevant percentage of their total trade in spite of their warm political relations. In fact, the Syrian-Egyptian alliance was a short political alliance for military purposes. Accordingly, Egypt and Syria had different strategies after the 1973 war.⁴³⁴ Moreover, the impact of bilateral trade was not worth mentioning to affect the divergence in strategies of both countries. It would be argued that if trade relations were more developed to the extent that any strain in political relations would cause a severe damage in the economic sphere, it was too dear for Egypt to deviate and ratify the disengagement agreements of Sinai I and Sinai II in 1974 and 1975. Moreover, if Egypt would insist, Syria would have followed, avoiding being harmed by a halt of trade relations with Egypt. However, since both countries were not economically related to a significant extent, they felt free to design

⁴³¹ Michael Barnett, pp. 178-9.

⁴³² Anwar Sadat became president of Egypt after the death of Nasser on 28 September, 1970.

⁴³³ Current prices.

⁴³⁴ Michael Barnett, p. 182.

their own strategies; Syria considered itself as the vanguard of Arab nationalism and refused any diplomatic step vis-à-vis Israel, and proclaimed that it was not in a hurry to reclaim its occupied territories. On the other hand, Sadat believed that the occupied territories could be recovered by diplomatic means stressing the role of the United States as a broker.⁴³⁵

By 1975 after the shuttle diplomacy of Henry Kissinger, US secretary of state, Egypt moved away from the traditional Arab ranks. This, of course, had a great impact on inter-Arab relations as will be demonstrated later in this section. During the same period the civil war broke up in Lebanon and created new conflictual issues for Arab states. The attempt by Egypt to deviate from the Arab rank created a political vacuum where Syria and Iraq were competing to fill it in and take the lead of Arab politics. Jordan was tormented by Syrian and Iraqi influence. Although it maintained remarkable relations with Syria from 1975 until 1979, Jordan moved to the Iraqi camp afterwards. Lebanon was fragmented by its civil war.

In spite of the crumbling inter-Arab relations during this period it is interesting to study some aspects of bilateral attempts at cooperation and integration, especially between Syria and Jordan in the period from 1975 until 1979. Then, it would be useful to examine how trade influenced such rapprochement. In fact, "from 1975 until 1979 Jordan and Syria maintained a close and cooperative relationship based upon the personal trust of Hafez Assad and King Hussein. This alliance involved more than political coordination, stretching to economic and even military cooperation."⁴³⁶

However, as table 8.7 shows, bilateral trade played a secondary role in such integration and to a different extent in each country. The bilateral trade was important to Jordan but it did not prevent it from a freedom of action vis-à-vis Syria, later on.

⁴³⁵ P.J. Vatikiotis, p. 96.

⁴³⁶ R.D. McLaurin, Don Peretz and Lewis Snider, p. 19.

Table 8.7. The bilateral trade of Syria and Jordan, 1975-1979

	1975	1976	1977	1978	1979
Bilateral trade in \$ million ⁴³⁷	35.84	59.33	62.68	83.64	90.18
% of bilateral trade to Syria's foreign trade	1.37	1.94	1.68	2.39	1.82
% of bilateral trade to Jordan's foreign trade	4.05	4.81	3.84	4.65	3.83

Source: Compiled by the author using data from the *1979 Yearbook of International Trade Statistics*, Vol. 1, Trade by Country, New York, United Nations, 1980, and the *1980 Yearbook of International Trade Statistics*, Vol. 1, Trade by Country, New York, United Nations, 1981.

The Syrians were more strategically oriented to get Jordan on their side in any diplomatic effort emerging to reclaim their occupied territories by Israel after 1967, whereas, King Hussein was aware not to let Syria close its borders as happened in the early 1970s no matter how much was the difference in their foreign policies. Accordingly, Brand confirmed,

Jordan was largely seeking to alter the conditions that had enabled Syria to close its borders with the Kingdom in 1970, during September conflict. Through pushing for greater economic integration, Amman sought to lay the groundwork for stronger and deeper economic ties with Damascus so that Syrian decision makers would be forced to think twice before again closing the joint border. Economic cooperation developed during this period to include attempts to lower barriers to trade, to increase industrial integration through participation in shared projects, and jointly to exploit Yarmuk River waters.⁴³⁸

Even though the bilateral trade of Syria and Jordan kept increasing during the period studied, it was not the decisive factor of their rapprochement. In fact, it was a by-product of other more sensitive issues that came out of common strategic understanding between both states. After 1974, the Syrian-Jordanian relations improved because of many factors; first, the rapprochement of Anwar Sadat with the US after the 1973 Ramadan War left both states, and especially Syria, aware of having a strong ally to

⁴³⁷ Current prices.

⁴³⁸ Laurie Brand, "In search of Budget Security: A Re-examination of Jordanian Foreign Policy", pp. 145-6.

replace Egypt. Therefore, they came close to fill in the vacuum. Secondly, the war in Lebanon and the growing regional position of Syria made King Hussein rely on Syria as an ally. In fact, "King Hussein allied himself with Assad in his undertaking, largely because a Muslim-PLO victory in Lebanon might isolate Jordan in its immediate regional situation."⁴³⁹ Thirdly, economic factors also played an important role in explaining the rapprochement between Syria and Jordan. However, they were not just the bilateral economic relations that promoted this closure. "Jordan and Syria, given the structure of their economies and their reliance on Arab Gulf state financial aid, found common cause during this period in approaching the oil states with a unified front (beginning together rather than separately)."⁴⁴⁰

The Syrian-Jordanian alignment created immediate worries to the neighbouring Iraq, especially after 1975 when the latter eased its problem with Iran⁴⁴¹ and became more potent to play an important role in inter-Arab politics. Accordingly, Iraq's resentment towards Syria increased. Vatikiotis argued "the Iraqi-Syrian 'dispute' was provided by the *rapprochement* between Syria and Jordan, prompted by developments in the Arab-Israel conflict, namely, the second interim agreement between Egypt and Israel in Sinai. Iraq immediately expressed its hostility to the Syrian-Jordanian alignment."⁴⁴²

The Syrian-Jordanian relations lost their pace after most factors favouring their alignment became obsolete. In fact, after the Riyadh meeting in January 1977, in which both states met their demands from Arab oil countries, and when Iraq started to rise as a regional power excelling the influence of Syria, Jordan improved its relations with Iraq. In addition, McLaurin and Don Peretz confirmed,

With Assad's future clearly limited, King Hussein and Jordan consequently moved toward better and closer relations with Iraq, Syria's enemy. With Jordan, Iraq's relationship has improved rapidly due partly to common interests in the Gulf and on the Peninsula, and partly to Jordan's image as a window to the west (particularly the United States).⁴⁴³

⁴³⁹ Alan R. Taylor, p. 85.

⁴⁴⁰ Laurie Brand, p. 145.

⁴⁴¹ C. Ernest Dawn, "The Foreign Policy of Syria" in L. Carl Brown, pp. 171-2.

⁴⁴² P.J. Vatikiotis, pp. 104-5.

⁴⁴³ R.D. McLaurin, Don Peretz and Lewis Snider, p. 19.

The shift in Jordan's alignment from Syria to Iraq showed how trade played a minor role in inter-Arab alliances, which could be considered as one aspect of integration. At the end of the 1970s, Jordan and Syria witnessed their highest trade relations during this period, and still Jordan tilted toward Iraq. However, the previous integrational attempts intended by Jordan towards Syria did not lead to the same consequences as of the early 1970s since their joint borders were not closed. Thanks to previous attempts at economic integration in general and not only trade the common borders were kept open.

Moreover, Syria and Iraq were in an intermittent feuding throughout the 1970s. They had two short interludes; the first was after the Sinai disengagement agreements between Egypt and Israel and the second was after Camp David in 1978. Hence, the withdrawal of Egypt from the Arab stand fragmented the "Arab rank" and increased the competition between Syria and Iraq, although they had "come together briefly where their interests in opposing a peaceful accommodation with Israel converged. Syria's opposition to Egypt rested on military, strategic and political reasons, considering the Israeli occupation of the Golan since 1967, Syria's own involvement in Lebanon, and its special relationships with the PLO. Iraq, on the other hand, saw its chance, with Egypt choosing to leave the wider inter-Arab political arena, to engage in the politics to Arab leadership."⁴⁴⁴

The Iraqi-Syrian tensions emanated from material profits. Syria and Iraq were at odds on transit rights and royalties of the Iraqi pipelines crossing Syria in 1972-1973.⁴⁴⁵ In addition, "in 1975, Iraq and Syria nearly came to blows over the greatly reduced Euphrates flow, which caused drought and endangered million of Iraqi farmers."⁴⁴⁶ However, the first starting place of their conflict originated from their aspiration to Arab leadership. In sum,

Relations between the two Ba'ath regimes had always been touchy, but had first reached their nadir in 1975 when a dispute erupted over the waters of the Euphrates River. The erection of a dam at Tabqa has been the principal economic project in Syria, yet the dam's effect on the flow of Euphrates water has adversely affected Iraq. The merits of this and other disputes

⁴⁴⁴ P.J. Vatikiotis, p. 124.

⁴⁴⁵ C. Ernest Dawn, p. 171.

⁴⁴⁶ Phebe Marr, p. 186.

between Baghdad and Damascus are in fact of much less importance than the central element in Iraqi-Syrian relations, which is the competition for the leadership in the Fertile Crescent.⁴⁴⁷

The second break in the Syrian-Iraqi relations came after Camp David in 1978. In fact, Syria and Iraq became closer when the latter attempted to take the lead of the Arab stand against Israel. However, this interlude did not last for so long. "The budding Baghdad-Damascus axis was virtually aborted by the purges in Iraq and Saddam Hussein's assumption of the presidency from Hassan al-Bakr in July 1979. Though purges were directed against a group which tried to circumscribe Saddam Hussein's monopoly of power, Syria was accused of having been involved in the plot."⁴⁴⁸

The polarisation of the Iraqi-Syrian relations and the deviation of Egypt from the usual Arab stance against Israel obstructed every initiative of Arab regional integration. In fact, such further distancing between Arab states would have been avoided if inter-Arab economic and mainly inter-Arab trade relations were much more developed. A large and substantive inter-Arab Mashreq trade would have a stronger impact on designing at least a common stand against the regional threat that emerged after 1967.

Finally, it is important to focus on the deviation of Egypt from the Arab track after Camp David. Egypt's economic interests were less coordinated with the Arab Mashreq states. The percentage of Egypt's regional trade with the Mashreq to its foreign trade was on the average less than 4 per cent during the 1970s. Therefore, regional trade did not influence Egypt to reconsider its strategy at the eve of Camp David in September 1978, and lately its peace treaty with Israel in March 1979. Egypt's membership was suspended from the LAS and the latter's headquarters were removed from Cairo to Tunis. Moreover, all Arab ambassadors were recalled after Arab states broke off all diplomatic relations with Cairo.⁴⁴⁹

The expulsion of Egypt from the LAS formed a real and deep burst to Arab regional integration in general and to Arab Mashreq integration in particular. It was the most serious disintegrating event that was decided by Arabs themselves in their recent history. Therefore, it was unrealistic during that time to consider the effect of regional

⁴⁴⁷ R.D. Mac Laurin, Don Peretz and Lewis Snider, p. 281.

⁴⁴⁸ Alan R. Taylor, p. 78.

⁴⁴⁹ Ibid., p. 80.

trade as a condition not only to examine integration between Arab Mashreq, but also to halt disintegrating consequences affecting Arab states integration.

8.5 The impact of trade on regional integration during the period of the post oil booms, 1981-1990

In examining the political environment of the Arab Mashreq during this period, it seemed unrealistic to speculate that regional trade could have any significant effect on regional integration. A closer look to the Arab Mashreq politics revealed the deep level of fragmentation in inter-Arab relations in general. Egypt and until the mid 1980s was out of the game, even if it traded with some Mashreq states to a very limited extent, it was not part of any Arab regional scheme since that could mean a legitimisation of its “betrayal” to the Arab cause after its peace treaty with Israel. Iraq, on the other hand, was tired with its war with Iran until 1988. It was keener to incorporate with the Gulf to maintain material support during the war than become closer to the Mashreq. Moreover, Iraq adopted a “strategic liaison” with Jordan in need of its Aqaba port after the deflection of oil shipping caused by the war. On the other hand, Syria had sided with Iran against Iraq, and Lebanon was torn by its civil war and by the Israeli occupation of a large portion of its southern territories. In this environment, it was too impractical to initiate any substantial regional attempt at integration, especially when Egypt, the central force in the Arab World, has been playing outside the Arab backyard, and Syria and Iraq, which were in highly strained relations, did not have the capacity to fill in the vacuum. Nevertheless, Iraq went for two very short-lasting and challenging integrational efforts at the beginning and at the end of the 1980s. These attempts are reviewed below.

As a matter of fact, Egypt’s withdrawal from the Arab order after its peace treaty with Israel weakened severely the idea of Arab unity and integration. A more realistic discourse took over the ideological rhetoric. Arabism was interpreted differently by Egyptians and Arab leaders in general, and it was considered a burden to the sovereignty and material benefits of the individual states. As such, it was highly unwise to repeat previous unsuccessful attempts at Arab integration. On the contrary, the trend was more towards a state-centric strategy. Therefore, “Sadat’s separate peace had profound consequences for the Arab system. Just as Egypt’s hegemonic role had

established Pan-Arab constraints on sovereignty, so its promotion of sovereignty over Arabism released many remaining constraints. It also generated deepened insecurity throughout the Arab system that intensified the retreat to state-centric self-help by individual states, notably Syria.”⁴⁵⁰

The Egyptian resolute attitude of making peace with Israel induced a normative alteration of Arab leaders’ values, and it triggered them to pursue different independent strategies putting Arabism on “a back seat to sovereignty in foreign policymaking.”⁴⁵¹ In fact, the Syrian position in siding with Iran in the Iraq-Iran war was considered mainly a reaction to such revisionist attitudes of the Arab leaders’ priorities.

Moreover, the durability of Arab regimes during the 1980s weakened any call or attempt at integration between Arab states. The Arab regimes became more consolidated in the 1980s where no more random *coups d’etat* were capable of removing any Arab regime. In spite of Sadat’s assassination in 1981, its foreign policy seemed highly institutionalised in Mubarak’s regime. With the exception of the Lebanese government, which showed incapacity in maintaining its sovereignty and effecting leverage on foreign policy, every Arab Mashreq’s regime started to exercise a more sophisticated control on its local territory by advocating its “own nationalism”.⁴⁵² Hinnebusch confirmed that “the very durability of the Arab states as a customary framework of political life fostered their growing acceptance, if not strong affective support for them.”⁴⁵³

Furthermore, Egypt’s withdrawal from the Arab rank intensified the struggle for leadership between Arab states, especially Syria and Iraq. Iraq attempted to show its commitment and leadership of Arab unity and integration efforts during the Amman Summit of the Heads of Arab States in November 1980 by issuing the pan-Arab Economic Charter. However, the summit was boycotted by Syria and Lebanon, and of course it was not attended by the ostracised Egypt. Moreover, the summit reflected the short-lived new balance of power in the region after the ascendance of Saddam Hussein to power and the breakdown of the Shah’s regime in Iran, and not forgetting the retreat of Egypt from Arab politics.

⁴⁵⁰ Raymond Hinnebusch, “The Middle East Regional System”, p. 43.

⁴⁵¹ Ibid., p. 44.

⁴⁵² Roger Owen, *State, Power and Politics in the Making of the Modern Middle East*, 2nd edition, pp. 71-2.

⁴⁵³ Raymond Hinnebusch, “The Middle East Regional System”, p. 45.

In fact, the pan-Arab Economic Charter reflected the culmination of an Iraqi-Jordanian-Saudi axis to lead the Arab regional system in 1980 and 1981. Its influence extended to the Fertile Crescent, except Syria, and to the Arabian Peninsula, except South Yemen.⁴⁵⁴ On the other hand, this bloc was opposed by the Syrian-Libyan bloc that was shortly bound into a unitary state without any viable scheme of integration. The confrontation between these two blocs became ubiquitous in the boycotting of Syria (dragging Lebanon) to the November Arab Summit in Amman in 1980. Moreover, at that time, Syria was criticised for backing Iran in its war with Iraq, and by the end of the summit more than 240,000 Syrian troops were deployed on the Jordanian border.⁴⁵⁵

The period preceding the Amman Summit in 1980 witnessed an increase in the value of bilateral trade of Iraq and Jordan, but it was not definitely the important driving force to create such a political alliance. The Jordanian-Iraqi bilateral trade jumped up from less than \$40 million in 1970 to more than \$100 million in 1980. In fact, the Syrian-Iraqi bilateral trade was around six fold the Jordanian-Iraqi trade, however, the political bloc was formed between Jordan and Iraq. Moreover, the impact of the pan-Arab Charter was not felt in the Arab Mashreq since three Mashreq states did not participate and Iraq itself was more concerned with the exigencies of its war with Iran.

Furthermore, in spite of a considerable bilateral trade, its impact was minimal to prevent Syria and Iraq from breaking off diplomatic relations in August 1980. At the beginning of the 1980s, the Syrian-Iraqi bilateral trade was highly significant, to reach in 1981 more than \$860 million mainly of crude oil exportation to Syria.⁴⁵⁶ However, the latter did not hesitate to close the pipeline crossing its territory in 1982. The bilateral trade dropped to nil throughout the whole decade. The point to stress here is that bilateral trade did not influence Syria and Iraq to maintain any aspect of integration or rapprochement; instead, the Syrians were more driven by their political and strategic interests with Iran to break diplomatic and trade relations with Iraq.

The breaking off of diplomatic relations between Syria and Iraq was officially proclaimed on 18 August 1980, only one month before the outbreak of the Iraqi-Iranian war. Later on, Syria sided with Iran against Iraq, and tensions with Jordan erupted to the level of a military confrontation. Consequently, "Syria refused to attend the 1980 Arab

⁴⁵⁴ Yemen was still divided into two separate states.

⁴⁵⁵ Alan Taylor, pp. 87-93.

⁴⁵⁶ The closure of the Syrian borders deprived Iraq of 40 per cent of its oil revenues from the oil shipped in the Mediterranean.

Summit, reiterated its support for Iran in its war with Arab Iraq, ridiculed the Summit and King Hussein, and then moved its army towards the Jordanian border on the pretext of Jordan's covert operations in Syria."⁴⁵⁷ The Syrian stand against Iraq was skilfully interpreted by Assad who considered the Iraqi assault as "the wrong war at the wrong time against the wrong enemy, rightly predicting that it would exhaust, divide, and divert the Arabs from the Israeli menace."⁴⁵⁸

In fact, the attempts at economic integration between Syria and Jordan in the mid 1970s, mainly orchestrated by King Hussein to avoid any recurrence of border closure, played an important role in keeping the Syrian-Jordanian relations less strained, although both states were highly divided on different political issues such as the Jordanian rapprochement with Egypt, its stand with Iraq, and over politics in Lebanon. The bilateral trade survived and Jordan played a mediator role between Syria and Iraq at the ending of the Iran-Iraq war.⁴⁵⁹

To reiterate, the repercussions of Egypt's solitary peace with Israel, the high political polarisation induced by the Iran-Iraq war, and the Israeli invasion of Lebanon in 1982, weakened dramatically the impact of regional trade in promoting integration. Furthermore, regional and bilateral trade between Arab Mashreq states could not prevent the breaking off of diplomatic relations between "brothers". Consequently, the Mashreq regional system was shattered leaving regional trade much more obsolete in reducing conflicts and settling disputes. Taylor concluded,

The Iran-Iraq war exacerbated the polarization of the Arab system which had commenced with al-Sadat's trip to Jerusalem in November 1977. Though a degree of solidarity had been established by the Arab majority opposed to Egyptian policy at the Baghdad conferences, the formation of the Iraqi-Saudi-Jordanian axis and the countervailing Syrian-Libyan entente formalized a split, which became particularly intense when Saddam Hussein launched his campaign against Iran. This left the system in a state of disarray and lacking in any positive

⁴⁵⁷ Michael Barnett, p. 202.

⁴⁵⁸ Raymond Hinnebusch, "The Foreign Policy of Syria" in Raymond Hinnebusch and Anoushiravan Ehteshami, p. 156.

⁴⁵⁹ Laurie Brand, pp. 146-7.

direction appropriate to the broader interests of the Arabs as a regional affiliation.⁴⁶⁰

The second attempt at regional integration in the Arab Mashreq was the formation of the Arab Cooperation Council (ACC). The ACC was established in 1989 comprising Iraq, Egypt, Jordan and North Yemen. In fact, as table 8.8 depicts, regional trade was steadily increasing since 1985. In 1989, the regional trade of the Arab Mashreq states of the ACC augmented by more than 40 percent. In fact, this trade was mainly increasing because of the Jordanian-Iraqi bilateral trade increase. Moreover, the bilateral trade of Egypt with both states were also rising.

Table 8.8. The regional trade of the Arab Mashreq ACC countries, 1985-1989

	1985	1986	1987	1988	1989
Regional trade in \$ million ⁴⁶¹	837.2	842.6	981.4	1185.6	1443.6
% of regional trade to Iraq's foreign trade	4.65	6.10	7.28	7.61	7.54
% of regional trade to Egypt's foreign trade	11.42	7.63	10.19	11.0	14.30
% of regional trade to Jordan's foreign trade	24.55	26.48	30.92	31.01	44.64

Source: Compiled by the author using data from the Arab Monetary Fund, *The Foreign Trade of Arab Countries, 1980-1990*, Issue No. 8, Abu Dhabi, AMF, 1991.

It could be argued that regional trade played a decisive factor to initiate such a regional bloc. However, other important changes in the international and regional system were behind its establishment. At the international level, the withdrawal of the Soviet Union's weight in the Middle East influenced states such as Iraq and North Yemen to adjust their alignments in the region. Iraq maintained warm relations with Jordan, and during its war with Iran it became closer to Egypt. Moreover, Iraq feared the triumph of the United States and its allies, especially Saudi Arabia, after the demise of the Soviet Union; since in that case, it will become more isolated in the regional system in times when the repercussions of the Iran-Iraq war had bitterly weakened its prestige and economic leverage in the region.

⁴⁶⁰ Alan R. Taylor, p. 94.

⁴⁶¹ Current prices.

At the regional level, many important changes favoured the formation of the ACC. These factors would come *a priori* of the increase of regional trade, bearing in mind the self-help and security-prone attributes of the regional system, where the founder states of the ACC exist: first, the return of Egypt to the Arab fold at the eve of 1987⁴⁶² - though it was officially readmitted to the LAS in 1989 in the Casablanca Summit - enhanced the formation of the ACC. Egypt supported Iraq in its war with Iran to break its Arab isolation after Camp David. This improvement in political relations enhanced the establishment of the ACC.

Secondly, the Jordanian-Iraqi alliance that was established at the beginning of the 1980s maintained its reliability throughout the whole decade. This alliance was eventually crystallised in 1989 with the formation of the ACC. Hansen confirmed that “the relationship between Jordan and Iraq had developed and improved during the 1980s, and it was at its height when the two states were forming the ACC. At the summits, Jordan supported Iraq; the economic interaction increased; and the military cooperation developed to include a joint Jordanian-Iraqi air squadron.”⁴⁶³

Thirdly, the early restoration of the Egyptian-Jordanian relationships also influenced the formation of the ACC. In fact, although diplomatic relations were still halted between Jordan and Egypt, they maintained some aspects of economic exchanges since their borders were not totally closed.⁴⁶⁴ Flights and labour were still crossing borders on both sides, and Jordan recovered its private sector trade with Egypt as of 1983. The official restoration of political relations, however, was initiated in September 1984. Accordingly, Egypt and Jordan started to compromise and adjust political coordination on issues such as the PLO-Jordanian relationships, peace talks with Israel and the common stand vis-à-vis the Iran-Iraq war. These same issues made the Syrian-Jordanian relations more at odds.⁴⁶⁵

Fourthly, the new stage of the Iraqi-Egyptian relationships after the outbreak of the Iran-Iraq war helped the formation of the ACC. During the 1980s, Egypt and Iraq rapprochement began to achieve mutual benefits. Each country had its reason for

⁴⁶² Michael Barnett, p. 206.

⁴⁶³ Birthe Hansen, *Unipolarity and the Middle East*, Surrey, Curzon Press, 2000, p. 132.

⁴⁶⁴ King Hussein considered that the resolutions of the Baghdad Summit in 1979 to expel Egypt from the League of Arab States and break off all diplomatic relations with it were only applicable to Arab governments' relations, and they should not prevent any transnational relations especially the bilateral transactions between the private sectors in Jordan and Egypt.

⁴⁶⁵ Laurie Brand, pp. 149-150.

reconsidering the collapse of political relations after Camp David. By supporting Iraq, Egypt thought of reintegrating in the Arab camp, whereas Iraq softened its tone against Egypt to get diplomatic and material support in its war against Iran, although Iraq was one of the Arab pillars in condemning the Camp David and peace treaty accords between Egypt and Israel.⁴⁶⁶

Finally, in establishing the ACC, Iraq assumed that it would both isolate the Syrians and gain leverage in its debt problems with the Gulf States, mainly Kuwait. Hansen confirmed that the ACC was “a way of isolating Syria and of gathering influence against the richer countries GCC”.⁴⁶⁷

Consequently, the aforementioned factors were considered salient in the formation of the ACC besides the growing regional trade between Iraq, Egypt and Jordan. In 1989, the political relations of Egypt, Jordan and Iraq became very close and they “expanded” as the ACC was established.⁴⁶⁸

Actually, the ACC was quickly established but it “collapsed” faster than any other effort at Arab regional integration. The main reason was the Iraqi invasion of Kuwait in August 1990, which divided severely the Arab stand; Egypt, a founding member of ACC, sided with the international coalition led by the United States against Iraq to expel it from Kuwait, whereas Jordan and North Yemen driven by domestic conditions supported Iraq by not joining the coalition.

In sum, with the exception of the formation of ACC, the regional trade was not considered a favourable condition to achieve any aspect of integration in the Arab Mashreq. This decade witnessed deeper fragmentations in the Arab camp, where Arab Summits were increasingly boycotted by disputing states much more than the previous decades. Therefore, the insignificant impact of the regional trade would be best understood after a careful examination of the growing Arab “disorder” during this decade, as described by Barnett,

The conflicts between Arab states were more numerous than ever before, and militarised conflicts too were multiplying. Between the 1949 and 1967 Arab states had roughly ten militarised disputes (three of those coming in the Maghreb);

⁴⁶⁶ Birthe Hansen, p. 110.

⁴⁶⁷ Ibid., p. 113.

⁴⁶⁸ Laurie Brand, p. 148.

they had nineteen militarised disputes between 1967 and 1989. That is, the twenty-two years since 1967 produced nearly twice as many militarised conflicts than ever but the cause of these conflicts increasingly was territorial grievances and the desire for strategic influence rather than strictly domestic factors such as a spillover of an internal conflict or the attempt by a regime to increase its popularity by manufacturing or paying up an external grievance.⁴⁶⁹

8.6 The impact of trade on regional integration during the period of economic liberalisation, 1991-1998

This period did not witness any significant attempt at regional integration between Arab Mashreq states. With exception of the 1996 Arab Summit in Cairo and its endorsement of the GAFTA as of 1998, this period revealed the inadequately organised Arab efforts, diplomatically, politically, militarily and economically.

This period began with a blow to regional integration efforts rooted in the repercussions of the Iraqi invasion on Kuwait in August 1990. Arab Mashreq states were divided in the aftermath of the invasion; Syria and Egypt sided with the Gulf States and called for unconditional withdrawal of Iraqi troops from the occupied Kuwait, whereas Jordan showed signs of support for the occupation.⁴⁷⁰ Each country stood behind its material and economic interests pushing away every aspiration of Arab unity and integration.

Ostensibly, some aspects of diplomatic and political coordination shaped the Syrian-Egyptian relations after the Iraqi invasion of Kuwait. They both sided in the same camp opposing Iraq bidding for regional hegemony, and they both tried to establish an ambitious security system in cooperation with the states of the GCC in March 1991, when they issued the Damascus Declaration. This Declaration, if materialised, would have allowed Syria and Egypt to send military troops to the Gulf to ensure its stability by deterring any military attack, in return of economic assistances from the rich Gulf states. However, this attempt failed for, at least, two reasons. First, the Arab Gulf states found the American troops more reliable in the Gulf peacekeeping endeavour; therefore,

⁴⁶⁹ Michael Barnett, pp. 203-4.

⁴⁷⁰ Marwan Sa'ad, "Arab Regional System and Inter-Arab Conflicts: the Iraqi-Kuwaiti Crises of 1961 and 1990", Working Paper Series, No. 29, International University of Japan, September 1992, p. 163.

they concluded direct security agreements with the US and “invited Egyptian and Syrian troops to leave”.⁴⁷¹ Secondly, “while the Gulf states thought that Egypt and Syria were angling to get maximum money for minimal security, Egypt and Syria believed the Gulf States wanted maximum security for minimal money. In part because of this dynamic, the Damascus formula collapsed.”⁴⁷²

However, it was certain that trade had nothing to do in forging such alliance since the Syrian-Egyptian bilateral trade was minimal at that time.⁴⁷³ Both Syria and Egypt were driven by their individual interests. Syria, by siding with the international coalition against Iraq, achieved strategic political and economic gains. The Gulf crisis allowed its rapprochement with Egypt and Saudi Arabia to enhance its leverage in its struggle, mainly diplomatically and politically, against Israel. Hinnebusch confirmed “joining the second Gulf War coalition enabled Syria to break out of the Arab isolation from its alignment with Iran. This put Syria back at the heart of a renewed Cairo-Damascus-Riyadh axis from which it could orchestrate an all-Arab front on its struggle with Israel.”⁴⁷⁴

Moreover, Syria saw in the second Gulf War a “golden opportunity” to get a green light from the US in controlling most of the Lebanon, by crashing its staunchest opponent, General Michel Aoun who was supported by Iraq, before the latter launched its military invasion on Kuwait.⁴⁷⁵ Besides, “Syria found the crisis a good chance for the overthrow of the Baathist regime of Iraq, and thus did not hesitate to participate with the Allied-forces under the leadership of the US even though the latter was considered by Damascus as a traditional enemy of Arabs.”⁴⁷⁶

At the economic level, Syria got \$2 billion from Saudi Arabia as a reward for its position in the war.

Egypt was mainly driven by economic benefit to oppose Iraq though they were both founders of the ACC in 1989. Nibloc wrote, “Egypt would appear to be the only Arab

⁴⁷¹ Raymond Hinnebusch, “The Foreign Policy of Syria”, p. 111.

⁴⁷² Steve A. Yetiv, *The Persian Gulf Crisis*, London, Greenwood Press, 1997, p. 105.

⁴⁷³ The Syrian-Egyptian bilateral trade reached \$39.9 million in 1991. The foreign trade of Egypt was \$11521 million, and the foreign trade of Syria was \$6199 million. Refer to Arab Monetary Fund, *Foreign Trade of Arab Countries*, Abu Dhabi, Arab Monetary Fund, 1988-1998.

⁴⁷⁴ Raymond Hinnebusch, “The Foreign Policy of Syria”, pp. 157-8.

⁴⁷⁵ Youssef Choueiri, “Syria and Egypt and the Spoils of War” in John Gittings, (ed.), *Beyond the Gulf War: The Middle East and the New World Order*, London, Catholic Institute for International Relations, 1991, p.39.

⁴⁷⁶ Steve A. Yetiv, p. 168.

country which may have gained. Of the US \$50 billion which Egypt owed to foreign debtors in July 1990, a total of US \$15 billion has been forgiven - seven billion in military debts to the United States, and the remainder debts to the governments of the Gulf states.”⁴⁷⁷

With some evidence, the position of Jordan in the Gulf crisis was influenced by the Jordanian-Iraqi political and trade relations. Jordan’s location in the war was mainly based on economic benefits. Iraq was its number one trade partner, and besides, after some liberalisation bids introduced in 1989, the Palace couldn’t turn its back to popular sentiment praising Iraq. In fact, Jordan and Iraq were highly interdependent and their bilateral trade formed more than 18 per cent of Jordan’s foreign trade in 1990. Brand confirmed that “in the first place, there were clearly economic considerations at work that militated against Jordan cutting ties with Iraq.”⁴⁷⁸

Consequently, in the aftermath of the Gulf crisis, each country of the Arab Mashreq was bidding to serve its own interest first,⁴⁷⁹ and trade was not significant enough - ironically it was nil between states such as Iraq and Syria - to bridge the gap and unify Arab Mashreq states in one position vis-à-vis the crisis. In fact, in that time all aspects of economic and political integration were at “their lowest ebb since the concept of Arabism was created.”⁴⁸⁰ Owen described the disastrous outcome of the invasion of Kuwait on the Arab system as follows,

At the regional level, Iraq’s invasion of a sovereign Arab state in the name of its own version of Arabism, and the deep divisions which this invasion produced both between the regimes and inside each society, provided a near fatal blow to what was left of the once powerful belief in a unity which could transcend individual local interest.⁴⁸¹

During the same period, a bilateral attempt at integration materialised with the ratification of the Treaty of Brotherhood, Cooperation, and Coordination, signed between Lebanon and Syria on 22 May, 1991. The Treaty stipulated the coordination of the foreign policies of both states, and legitimised the military existence of the Syrian

⁴⁷⁷ Tim Nibloc, “Arab Losses, First World Gains” in John Gittings, p. 83.

⁴⁷⁸ Laurie Brand, p. 150.

⁴⁷⁹ Refer to Raymond Hinnebusch, “The Middle East Regional System”, p. 48.

⁴⁸⁰ Rami Zreik, “The Post-War Arab World: Development in Reverse” in John Gettings, p. 102.

⁴⁸¹ Roger Owen, *State, Power and Politics in the Making of Modern Middle East*, p. 104.

troops in Lebanon for mutual security benefits. It also called for wider economic integration between Syria and Lebanon. In general, it defined “the framework of an eventual confederation between Syria and Lebanon”,⁴⁸² that would be administered by the Syrian-Lebanese Higher Council. This Council was formed by the provision of the Treaty and it comprised the presidents, speakers, prime ministers, and deputy prime ministers of both states.

Moreover, following the endorsement of the treaty, many “cooperation” agreements followed in the sectors of agriculture, health, tourism, socio-economic sectors and the movement of labour, capital and people across the borders.

In fact, the bilateral trade of Syria and Lebanon was remarkable during this period, but it is still arguable whether trade influenced such integrational attempt. Many observers criticised the Lebanese-Syrian agreements following the treaty of 1991 as they were in favour of Syria much more than Lebanon. Tinaoui wrote, “while the Lebanese market has been opened up to Syrian products (legally as an outcome of the treaty and the by-agreements) the contrary has yet to be true, reflecting a clear imbalance in bilateral economic relations.”⁴⁸³

In other words, the Syrian-Lebanese bilateral trade has always been considerable for both countries, and it formed a significant proportion of their foreign trade. Therefore, it is questionable why the treaty only occurred in 1991. Two scenarios could explain such fact; the first stipulates that the treaty could not be ratified while Lebanon was still in a state of civil war, so it materialised after the war was over and the political order was restored. The second scenario, which is more acceptable, relates the timing of the ratification of the treaty to a *Pax Syriana* imposed on Lebanon, which was made possible by some regional and international situations that favoured the rebuilding of the Lebanese system under Syrian supervision. Consequently, the treaty came as an outcome of Syria’s interests in the post-Cold War era.

A last attempt at regional integration occurred in 1996 after the Arab Summit of Cairo that endorsed the establishment of the Greater Arab Free Trade Area as of 1998. GAFTA comprises all Arab Mashreq states but it is beyond the scope of this study since it was impossible to judge its impact in two years after its establishment in 1998.

⁴⁸² Ghazi Tinaoui, “Syrian-Lebanese Economic Cooperation”, *The Beirut Review*, No. 8, Fall 1994, p. 101.

⁴⁸³ *Ibid.*, p. 103.

In general, this period witnessed “disintegrational” attempts encouraged by self-interest policies adopted by Arab Mashreq states. They were divided bitterly after the invasion of Kuwait. Moreover, Syria and Jordan were in conflict after the Madrid Conference of 1991. Where president Assad of Syria showed reluctance to any settlement that could not provide Syria its legal and legitimate rights, King Hussein “needed a settlement more than Israel did in order to escape the marginalisation imposed on Jordan for its tilt toward Iraq in the Gulf War”.⁴⁸⁴ Therefore, on 26 October 1994, Jordan and Israel signed a peace treaty under the auspices of Washington leaving no room for Syria and Jordan to coordinate their diplomatic and political efforts vis-à-vis Israel. In fact, “Hafiz al Assad’s vitriolic reaction to Jordan after October 26, 1994, was strong and has been unrelenting.”⁴⁸⁵

Furthermore, added to the strained relations that resulted after the invasion of Kuwait and the Madrid settlement were the devastated political and economic situations of Iraq. The economic sanctions⁴⁸⁶ imposed on Iraq since 1991 worsened its political and economic position in the region and Iraq was totally isolated to initiate or to join any setting of Arab Mashreq integration.

8.7 Conclusion

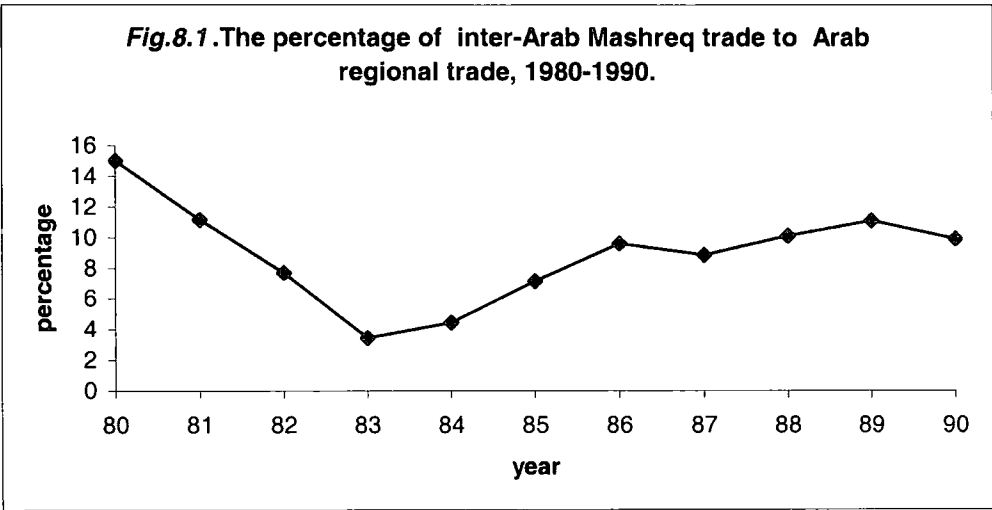
Generally speaking, during the whole period reviewed, trade did not have the influence expected by transactionalists on regional integration in the Arab Mashreq. It happened that many integrational attempts occurred when trade relations between partners were minimal such as the formation of the UAR in 1958, and the establishment of the ACM in 1964. Moreover, even when regional trade flourished, it did not constitute a sufficient factor for integration. The Lebanese-Syrian trade relations were a conspicuous example in this respect. Furthermore, considerable trade relations between Syria and Iraq in the late 1970s and beginning of the 1980s did not prevent them from breaking off diplomatic relations. Therefore, it could be generalised that the attributes of the system, in which the Arab Mashreq states exist where security and legitimacy were not fully consolidated, explain why the influence of trade was marginal.

⁴⁸⁴ Nadia el-Shazly and Raymond Hinnebusch, “The Challenge of Security in the Post-Gulf War Middle East System” in Raymond Hinnebusch and Anoushiravan Ehteshami, p. 76.

⁴⁸⁵ Adam Garfinkle, “The Transformation of Jordan” in Robert O. Freedman, p. 125.

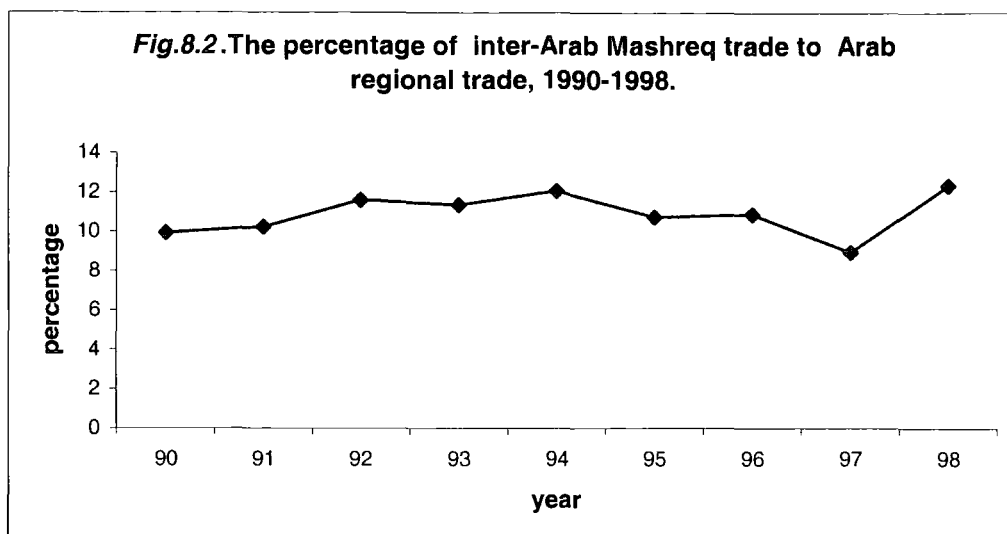
⁴⁸⁶ Adding to the extra-ordinary cost paid during the war, Iraq was deprived of oil revenues amounting to \$15-25 billion annually after the imposition of the sanctions.

In addition, even though the Arab Mashreq was the cradle of Arabism, of Arab unity schemes, and most of the Arab integrational initiatives, the region did not constitute in terms of trade a core area that can pull other Arab states to integrate as figures 8.1 and 8.2 show.⁴⁸⁷ The inter-Arab Mashreq trade constituted, on the average, no more than 10 to 15 per cent of the total Arab regional trade during the 1980s, and an average of around 10 per cent in the period 1990-1998. Therefore, according to transactionalists, the Arab Mashreq cannot act as a centre to induce or promote integration in the Arab World.



Source: Compiled by the author using data from the following resources: data on trade between 1980 and 1990 were taken from the Arab Monetary Fund, *The Foreign Trade of Arab Countries, 1980-1990*, Issue No. 8, Abu Dhabi, AMF, 1991. The data on the Lebanese trade for the year 1980 and data on Iraq's imports from 1980 until 1983 were taken from the *External Trade Bulletin of the ECWA Region*, 2nd Issue, Baghdad, ESCWA, 1984. Data on Iraqi imports from 1984 until 1990 were taken from the *External Trade Bulletin of the ESCWA Region*, 10th Issue, New York, United Nations, 2000. Although data on Iraqi imports were available in the AMF source, however, Professor Wilson recommended the ESCWA data.

⁴⁸⁷ All data on trade were taken from the Arab Monetary Fund, *The Foreign Trade of Arab Countries, 1980-1990*, Issue No. 8, Abu Dhabi, AMF, 1991.



Source: Compiled by the author using trade data from the Arab Monetary Fund, *The Foreign Trade of Arab Countries, 1988-1998*, Issue No. 17, Abu Dhabi, AMF, 1999. However, the Jordanian-Iraqi bilateral trade data for the years 1997 and 1998 was taken from the *External Trade Bulletin for ESCWA Region*, 10th Issue. Moreover, the total imports and exports of Egypt were taken from the *1998 International Trade Statistics Yearbook*, Vol. 1, Trade by Country, New York, United Nations, 1999.

To sum up, the application of a transactionalist approach to the Arab Mashreq could not be helpful in predicting whether integration would initiate or proceed successfully. It happened on any occasions that bilateral trade was developed enough to further integration but it did not lead to any integration arrangement, and on the contrary, some economic and political attempts occurred when bilateral or regional trade was minimal. The main reasons were the insignificance of regional trade and its minimal percentage of foreign trade and its instability and subordination to many economic and political barriers. Moreover, regional and bilateral trade in the Arab Mashreq could not affect events in a system shaped by security and strategic attributes, and in which inter-Arab rivalries and conflicts fashioned most aspects of interaction between states and leaders.

CHAPTER NINE

ANALYSIS OF THE ARAB JOINT VENTURES ESTABLISHED BY THE ARAB ECONOMIC UNITY COUNCIL

9.1 Introduction

The aim of this chapter is to examine the Arab joint ventures that were established by resolutions of the AEUC, and to study their roles as alternatives and feasible models of Arab regional integration after the successive setbacks of previous and larger schemes.

The assessment of an Arab joint venture will be addressed from two related perspectives. The first is linked to the performance of the company in implementing its objectives, and the second is related to its role in promoting Arab regional integration.

Arab joint ventures were discussed in the early 1950s during the first meetings of the Arab Economic Council. However, the lack of financial resources made the realisation of such ventures impossible. It was not until the mid 1970s and especially after the oil boom of 1973 that these ventures started to flourish. The accumulation of capitals resultant from the substantial increase in oil revenues provided the necessary assets to allow the establishment of four Arab joint ventures, with \$1500 million as a total capital, under the auspices of the AEUC. These ventures were: the Arab Company for Livestock Development, based in Damascus, Syria; the Arab Company for Drug Industries and Medical Appliances, based in Amman, Jordan; the Arab Mining Company, based in Amman, Jordan; and the Arab Company for Industrial Investments, based in Baghdad, Iraq. Only the first three ventures will be examined in this chapter since it was not possible to extend the field research to Baghdad because of political factors.

There are many Arab joint ventures existing today, both at the private and the public levels; however, this chapter will only examine those ventures that were established under the auspices of the LAS, and that resulted from the latter's strategy of commitment to the cause of Arab regional integration.

Theoretically, after the successive collapses of many regional and large-scale attempts at Arab regional integration discussed previously in this thesis, the idea of a less compassing and more practical attempts at regional integration came into existence in the Arab World. These efforts were implemented through the formation of the Arab joint ventures based on the following hypotheses. First, the Arab joint ventures are more acceptable than larger schemes of integration since they necessitate less change in member states and they pool fewer resources; consequently, they do not affect or weaken state control over its own economic and political affairs. Secondly, these ventures are sector-oriented; therefore, they can be more beneficial for developing some economic sectors in which individual efforts were not enough.⁴⁸⁸ Thirdly, these ventures can enlarge the Arab regional market by increasing the production capacity and promoting trade relations in spite of existing economic barriers.⁴⁸⁹ Finally, the private sector can participate as a real partner in Arab regional development.

In the following sections, each Arab venture will be examined separately and the research will employ statistics based on the companies' annual reports during the period 1991-2000, since before then it was not easy to get complete reports and data from the ventures and their subsidiaries.

9.2 The Arab Company for Livestock Development, ACOLID

The Arab Company for Livestock Development was established by resolution No. 661 of the AEUC on 10 June, 1974. Perceiving the importance of Arab joint ventures in promoting Arab integration and aiming at making use of livestock resources in the Arab World, the AEUC determined that the shareholders of this corporation must be Arab governments or Arab institutions and bodies that are fully owned by Arabs.⁴⁹⁰

9.2.1 Objectives

According to Article 3 of the Charter, the Corporation can carry out, in agreement with the participant governments and other institutions, all the agricultural, industrial and

⁴⁸⁸ Sulaiman al Munziri, "Arab Joint Ventures: Their Role in Economic Integration", *Arab Affairs*, in Arabic, No. 94, June 1998 p. 71.

⁴⁸⁹ Arab Economic Unity Council, The General Secretariat, *The Arab Joint Ventures Originating from the Council of Arab Economic Unity*, in Arabic, Cairo, AEUC, p. 3.

⁴⁹⁰ Arab Company for Livestock Development, *The Memorandum of Association, the Charter, the Founding Principles*, in Arabic, Damascus, ACOLID, p. 37.

commercial and other technical activities related to producing, manufacturing, transporting and marketing animal products and fodders. The same article clearly stipulates the following objectives:

A-In the field of production

- 1- Establishing projects for breeding, improvement and fattening animals to produce meat.
- 2- Establishing projects for dairy production and rearing local and foreign dairy cattle and goats.
- 3- Establishing projects for poultry production and breeding in order to obtain eggs and meat.
- 4- Fish culture and fishing in internal waters and high seas.
- 5- Animal and green feed production and pastures exploitation.

B-In the field of manufacturing:

- 1- Manufacturing and canning meat, fish and dairy products.
- 2- Manufacturing different types of green and concentrated feed.
- 3- Manufacturing animals and fish remains.

C-In the field of marketing:

- 1- Importing all materials and intermediate commodities and means of production that are related to the affairs of the Corporation.
- 2- Marketing animals' products and commodities inside the Arab World and exporting the surplus.
- 3- Establishing and providing the means of transportation and other related services.

4- Possessing and registering trademarks for the Corporation's and making use of them.⁴⁹¹

ACOLID upholds scientific and comprehensive programmes in the development of livestock resources in the Arab World, and it participates in achieving the Arab food security. Moreover, ACOLID makes use of the latest and advanced technologies to accomplish its goals.

9.2.2 Organisational structure

Like any joint stock corporation, ACOLID is ruled by two bodies: the Board of Directors and the Annual General Meeting;

*The Board of Directors:*⁴⁹² It is made up of at least 10 board members and at most twelve who are elected for three years by the Annual General Meeting. Every board member must represent at least 500 shares. The Board elects a Chairman and a Vice Chairman who acts as the legal representatives of the corporation. The Board has to submit each year an annual report encompassing the financial reports, the annual profits and losses of the corporation and it should suggest clearly how dividends should be distributed.

The Board of Directors has the right to appoint a general manager, managers and representatives who shall be authorised to sign for the corporation either individually or together.

*The Annual General Meeting:*⁴⁹³ It consists of all shareholders who own at least ten shares but it represents them all. Its meeting are chaired by the Chairman. Its resolutions are binding for all shareholders whether they were present or not in the meetings. The Annual General Meeting has the power to amend the Memorandum of Association and the Charter of the corporation. Moreover, it can extend the company's term and increase its paid-up capital by issuing more shares.

⁴⁹¹ Ibid., refer to Article 3 of the Charter of ACOLID, pp. 11-13.

⁴⁹² Refer to Articles 20-36 of the Charter.

⁴⁹³ For more on the power of the Annual General Meeting refer to Articles 37-51 of the Charter.

9.2.3 Shareholding members

As of 31 December 2000, table 9.1 shows the authorised, issued and paid-up capital of the shareholding Arab members.

Table.9.1. The shareholders' authorised, issued, paid-up, and not paid capitals of ACOLID as of 31 December, 2000.

Shareholder	No. of shares	Authorised capital (KD)	Issued Capital (KD)	Paid-up Capital (KD)	Due but not paid Capital (KD)
Saudi Arabia	1000	10,000,000	10,000,000	10,000,000	-
United Arab Emirates	1000	10,000,000	10,000,000	10,000,000	-
Iraq	1000	10,000,000	10,000,000	10,000,000	-
Kuwait Real Estate Investment Consortium	1000	10,000,000	10,000,000	10,000,000	-
State of Qatar	600	6,000,000	6,000,000	6,000,000	-
Syria	500	5,000,000	5,000,000	5,000,000	-
Egypt	500	5,000,000	5,000,000	5,000,000	-
Sudan	100	1,000,000	1,000,000	1,000,000	-
The Arab Investment Company, Jordan	50	500,000	500,000	500,000	-
Somalia	50	500,000	500,000	25,000	475,000
Yemen	50	500,000	500,000	500,000	-
Authorised but not issued capital	50	500,000	-	-	-
Total	6,000	60,000,000	59,500,000	59,025,000	475,000

Source: Arab Company for Livestock Development, *The 2000 Annual Report*, Damascus, ACOLID, p. 6.

The rich Gulf states including Saudi Arabia, UAE, Kuwait and Qatar account for 60 per cent of ACOLID's capital, whereas the other seven countries account for the rest.

Adding Iraq's capital, they jointly control more than 76 per cent of the corporation's capital. This proportion of shares shows that the rise of oil price after the first oil boom in 1973, which provided a financial surplus for the Arab oil exporting states, was the main driving force behind establishing ACOLID.

9.2.4 Branches and subsidiaries

ACOLID's head office is in Damascus, Syria, and its regional office is in Riyadh, Saudi Arabia. It already established six branches in Egypt, Qatar, Sudan, Syria, Saudi Arabia and Jordan. Each branch consists of a wholly owned project that specialises in different livestock development and production.

In Egypt, a project for breeding stock for broiler chicken was established which aimed at producing broiler chick and broiler hatching eggs. The annual capacity of the project⁴⁹⁴ is 1.06 million female chicks, 39.26 million hatching eggs and 1.2 million broiler chicks. The Egyptian Ministry of Agriculture provided ACOLID with the land on which the project was established.

In Doha, Qatar, ACOLID set up an administrative and commercial centre. In Khartoum, Sudan, ACOLID established two projects. The first was the feed-mill plant founded in 1983 to produce cattle and poultry feeds by taking advantage of the plentiful raw materials in Sudan. The project achieved since its establishment a net realisable profit of KD 6,156,180 (\$20,438,518) amounting to 121 per cent of its capital despite the obstacles that obstructed the supply of production inputs such as the lack of hard currencies and modern equipment importation. The second project established in 1986 was the integrated poultry project that aimed at producing broiler meat and eggs to meet, in part, local demands. The project reflected the integrated strategy adopted by ACOLID; since all feeds for rearing broilers were taken from the feed-mill plant in Khartoum and the breeding stock were taken from the breeding stock for broiler chicken project in Jordan. By the end of 1999 the net profit accumulated since establishment was KD 5,927,335 (\$19,678,752). The annual capacity of the project is around 2 million broilers, 15 million table eggs and 2.5 million hatching eggs.

⁴⁹⁴ Statistics and data are taken from the latest figures provided by the website of ACOLID: www.acolid.com/

In Syria, a project for sheep breeding and the fattening of lambs and calves was established. The project also produces feed for animals and crops for local production. Since it operated in the sectors of agriculture and animal products, it was significantly dependent on climate changes, especially the shortages of rainfall. The company sponsored scientific research at the University of Damascus in order to increase the productivity of the breed. The excess cash gained from the project, which could not be transferred outside Syria,⁴⁹⁵ was invested in an additional poultry project to produce meat for local consumption.

In Saudi Arabia, a project for the production and processing of green fodder was set up. Some other by-products generated from the integrative production strategy of the project, such as honey and fish farming, and the effluent from the fish water was used to irrigate the agricultural crops utilized for feed production. The balance sheet of 1999 showed a net loss of SR 2,681,378 (\$723,972) due to unfavourable climatic conditions that raised the cost of production.

Finally, in Jordan, ACOLID established a project for breeding stocks for broiler chicken that can supply ACOLID's projects and other Arab states. The project aimed at boosting the bilateral trade relations between states involved in that production. The project was set up in 1986 and its capacity increased in 1999 with a net profit reaching KD 4,353,796 (\$14,454,603).

In addition to the different branches previously mentioned, ACOLID tried to approach its objectives by investing in joint ventures that can enlarge capital and meet local interests and expertise in joint livestock development projects. ACOLID invested in ten subsidiary companies of which six were joint projects related to poultry production, three for milk and dairy projects and one project for poultry and cattle equipment. Only two projects were set up in Iraq and Yemen and the rest were in Saudi Arabia, United Arab Emirates and Qatar.

In the poultry production, ACOLID participated jointly with the Pension Department to establish in Al Assiah province, in Saudi Arabia, the Arab Saudi Company for Poultry Production. The paid-up capital of this company was SR 140 million (\$37.8 million) out of which ACOLID maintained 80 per cent of the shares. The company engages in every activity related to the poultry production. Also in Saudi Arabia, the same company

⁴⁹⁵ The Syrian government maintains strict control on the outflow of cash.

participated with ACOLID to establish a company for poultry production called Arab Takamul Company for Poultry Production, in which ACOLID and the Arab Saudi Company for Poultry Production hold 40 per cent each of its assets and the remaining 20 per cent are held by a private Saudi entity. The Arab Saudi Poultry Production Company contributed to the formation of the Oil Seeds Crushing Company Ltd.

In the United Arab Emirates, ACOLID participated in two poultry projects: the first was the Arab Company for Poultry Production, at Al Fujairah, occupying over 600 hectares. ACOLID held 76.53 per cent of its AED 95,850,000 (\$25,879,500) paid-up capital and the rest was shared by Al-Fujairah government. The company partly participated in supplying local demands for poultry meat and eggs. Its net profit for 1999 represented 10.49 per cent of the company paid-up capital. The second project was The Arab Poultry Breeding and Production Company, established in 1997 in Sharjah. ACOLID held 70 per cent of its AED 110 million (\$29.7 million) authorised capital and the Sharjah authorities held 30 per cent. The Company objectives were to produce broilers and hatching eggs for the neighbouring poultry projects. This project reflected the integrative strategy of ACOLID in the poultry industry.

ACOLID contributed to other two poultry projects in Qatar and Yemen. In Qatar, the Arab Qatari Company for Poultry Production was established, to which ACOLID participated in 60 per cent, and the Qatari government held the remaining 40 per cent. The company was formed to supply local demands of the Qatari market with broiler and table eggs. Its capital was increased to reach a shareholder's equity of QR 181,010,342 (\$48,872,792). In Yemen, ACOLID only contributed to 12.32 per cent of the Marib Poultry Company with paid-up capital amounting to YR 14.13 million (\$805,410). The Company produces poultry feeds, table eggs and chicks that are imported by the Ministry of Agriculture in Yemen for the needs of other poultry farms in Yemen.

ACOLID established its projects close to the markets in the Gulf states, and most subsidiaries in poultry production were set up jointly between ACOLID and the host governments, which implied that ACOLID's expertise in poultry production was recognised by those governments.

As for the milk and dairy production, ACOLID contributed to the establishment of three companies; the Arab Company for Animal Production in the United Arab Emirates, the

Arab Qatari Company for Dairy Production in Qatar and the Arab Iraqi Company for Livestock Development in Iraq.

The Arab Company for Animal Development was formed in 1979 as a joint venture between ACOLID which held 60 per cent of its assets and Ras al Khaimah's government which held 40 per cent. It specialised in dairy production, green fodders and processed red meat. The company faced severe competition from producers in neighbouring countries resulting in a net loss in 1999 amounting to AED 42,618 (\$11,507).

The Arab Qatari Company was jointly formed by ACOLID (47.95 per cent), the Qatari government (36.05 per cent) and the Gulf Investment Corporation (16 per cent). Its paid-up capital is QR 86.10 million (\$23,247,000). It aimed at supplying the local market with fresh milk and dairy products, juices and dairy fodders. After facing severe competition from producers in neighbouring countries, the company faced a net loss in 1999 amounting to QR 5.28 million (\$1,426,140) and it restricted its production to cow's farms only, where it had a special advantage in Qatar as the sole producer of fresh milk.

The Arab Iraqi Company for Livestock Development was equally shared between ACOLID and the Iraqi government. Its paid-up capital was ID 8.62 million (\$ 2,671).⁴⁹⁶ Since the company was situated in Northern Iraq, it faced difficult economic and political conditions including the scarcity of spare-parts and the difficulty of the in-flow of production materials in general. Moreover, the company risked the political unrest of the country. Therefore, the company registered a net loss in 1999 amounting to ID 22,526,478 (\$6,983) over which serious negotiations between the Company and the Ministry of Agriculture in Iraq were launched to cover the losses.

Unlike the poultry business, the dairy production investment was not successful; ACOLID suffered losses in all its subsidiaries involved in the milk and dairy production.

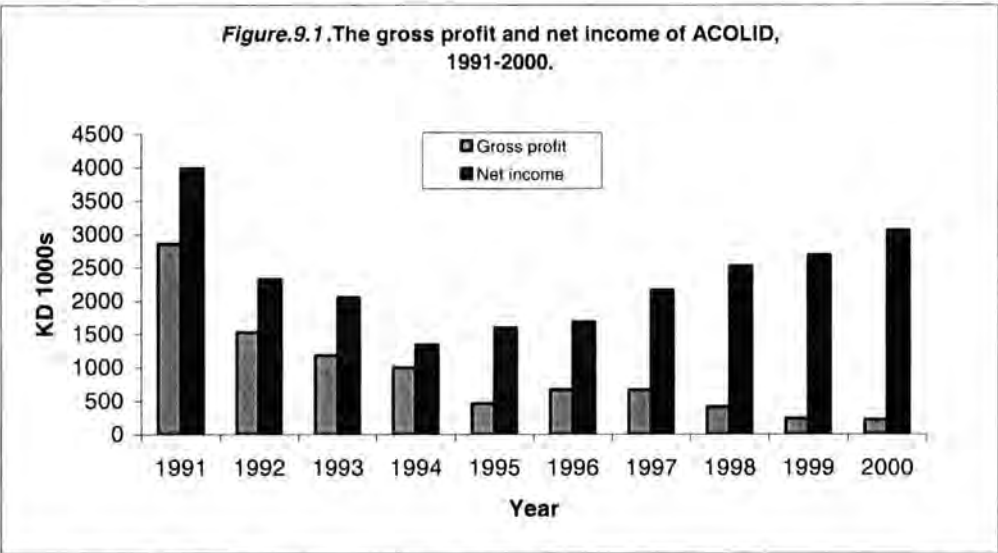
ACOLID expanded its activities to more than poultry, dairy and milk, animal and fodder projects to produce poultry and cattle equipments needed to establish modern factories with advanced technologies. ACOLID established the Arab Poultry and Cattle Equipment Company in collaboration with the Fujairah government, UAE government, and other parties. ACOLID only shared 20 per cent of the company. Although the latter

⁴⁹⁶ The Iraqi Dinar was devaluated dramatically after the Second Gulf War, 1 USD = 3253.7 ID

was established in 1991, its operational activities have not started yet. The project can boost the operational output of ACOLID by substituting imports of needed materials and the modern technological equipment required for establishing up to date factories.

9.2.5 Performance

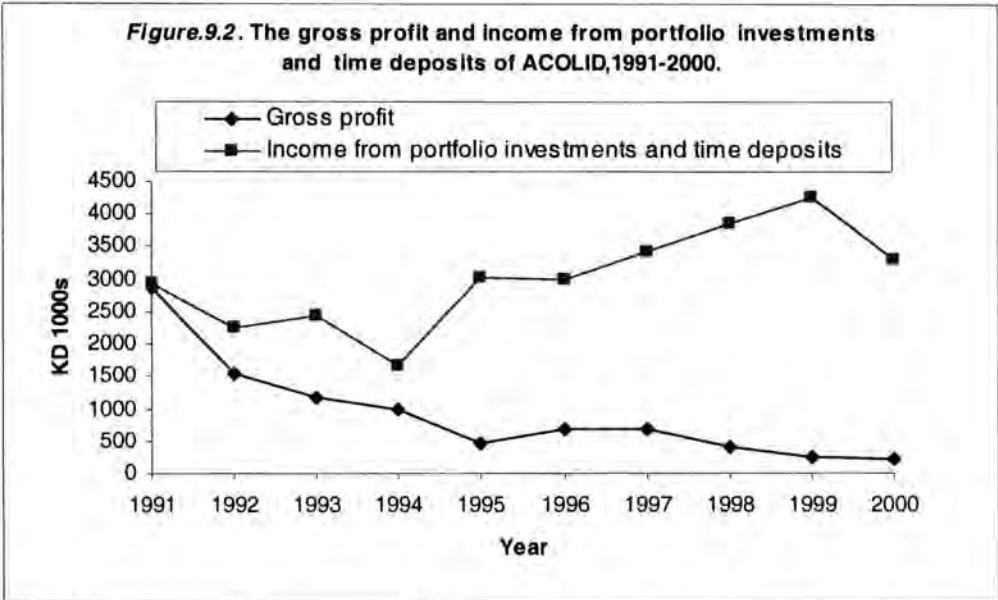
Assets and profit: The assets owned by ACOLID valued KD 105,860,648 (\$349,340,138) in 2000. The revenues of the corporation not only derived from investing in operational activities, but also from utilising its surplus funds in marketable securities and bonds for long and short terms “while waiting to identify viable investment opportunities complying with its goals”.⁴⁹⁷ As figure 9.1 shows below, the substantial net income of ACOLID is not obtained from operational activities. The gross profit during the 1990s, which is the operational profit that derives from investing in the main activities and objectives for which the corporation was set up for, is minimal compared to the net income. This contradicts the fact that the corporation increased its assets just from profiting in animal and agricultural production. Consequently, ACOLID’s role in Arab livestock development ought to be reviewed.



Source: Compiled by the author using data from “the Consolidated Statements of Incomes, 1991-2000” in ACOLID, 1991-2000 Annual Reports, Damascus, ACOLID.

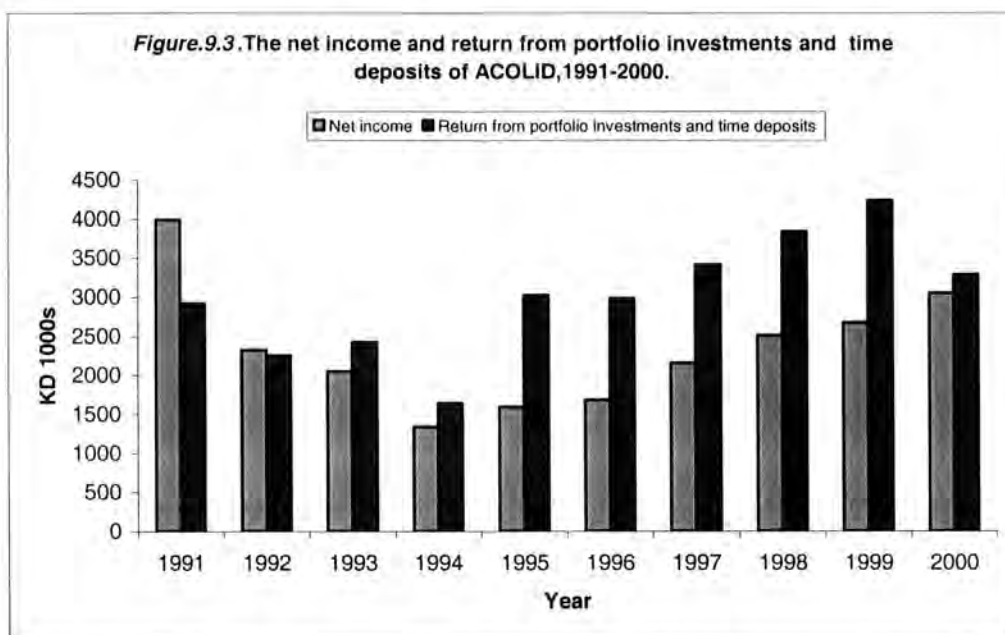
⁴⁹⁷ Arab Company for Livestock Development, *The 2000 Annual Report*, p. 12.

Moreover, reviewing the consolidated statements of income of the corporation for the same period reviewed in figure 9.1, ACOLID appears to function as a financial company. Figure 9.2 shows the comparison between the gross profits obtained by ACOLID and its incomes from portfolio investments and time deposits during the period 1991-2000. It is obvious that the gross profits were minimal and decreasing throughout the whole period, while the incomes from financial investment were much higher and they kept increasing after 1995 to exceed KD 4 million (\$13.28 million).



Source: Compiled by the author using data from "the Consolidated Statements of Incomes, 1991-2000" in *ACOLID, 1991-2000 Annual Reports*.

Moreover, by comparing ACOLID's returns derived from portfolio investments and time deposits with its net incomes in the same period, it is to be noted that these returns were especially higher after 1992 as figure 9.3 depicts. This fact was owing to the net losses attained by the associated branches of ACOLID and the losses which resulted from currency devaluation. For example, the net losses of associated companies were KD 236000 (\$783,520) in 2000 and KD 211,000 (\$700,520) in 1999, and the losses from currency devaluation were KD 975,000 (\$3,237,000) in 2000, KD 465,000 (\$1,543,800) in 1999 and KD 1,370,000 (\$4,548,400) in 1998.



Source: Compiled by the author using data from "the Consolidated Statements of Incomes, 1991-2000" in *ACOLID, 1991-2000 Annual Reports*.

However, the corporation's main strategy as a senior executive mentioned was "to substitute food imports and provide food security for the Arab World, therefore, commercial profit was not its main objective."⁴⁹⁸

ACOLID did not seek to borrow from any commercial or national bank and it invested its extra cash in time deposits. For example, in 2000, ACOLID invested KD 37,579,822 (\$124,765,009) in time deposits compared to KD 40,193,567 (\$133,442,642) in 1999, i.e. between 70 and 75 percent of its-paid up capital.

Management structure: Although ACOLID had many branches in different Arab countries, key decisions were taken by its Board of Directors in Damascus, who acted as a liaison between all branches.⁴⁹⁹ Each branch or project has technical, financial and livestock directors who have limited responsibilities and they refer to the general manager in key decisions. Moreover, budgets of local branches are proposed by local directors and sent to the Board of Directors to be consolidated and approved as one budget for the whole corporation.⁵⁰⁰ In general, "the Board sets a three-year strategy that includes the business plans of the branches, and it supervises them according to

⁴⁹⁸ Interview with Dr. Ahmad Mirii, Vice General Manager of ACOLID, Damascus, 20 February, 2002.

⁴⁹⁹ Interview with Mr. Mahmoud Dannoura, the Syrian representative in the Board of Directors of ACOLID, Damascus, 14 February, 2002.

⁵⁰⁰ Interview with Mr. Mohamad Takaji, Director of Financial Affairs of ACOLID, Damascus, 10 February, 2002.

these plans.”⁵⁰¹ In sum, local autonomy is weak and key decisions were usually taken in the head office. Besides, ACOLID operates like any other joint stock company that adheres to commercial law. Moreover, each branch complies with the regulations of the host country.⁵⁰²

ACOLID enjoyed remarkable autonomy in its managerial and financial affairs.⁵⁰³ It acted independently of any political interference; political conflicts and crises did not obstruct its work. This fact justifies the hypothesis mentioned in the introduction about the practicality of the joint venture compared to larger schemes of integration that were highly influenced by the political environment.

Marketing: Each project of ACOLID marketed its products in the host country, but some projects such as the feed-mill plant in Sudan and the breeding stocks for broiler chicken in Jordan exported some of their products to other branches of ACOLID in Saudi Arabia, UAE, Syria and Iraq.⁵⁰⁴ Products were marketed with reasonable prices to satisfy the market needs and according to the per capita income of each country. ACOLID never exported outside the Arab World or its local markets because of foreign competition.⁵⁰⁵

ACOLID’s products have their own brands and they are demanded by consumers because of their qualities not because they have an “Arab brand”, and in that respect the ACOLID Arab brand did not become an asset.⁵⁰⁶

Production: The host governments subsidised to some extent ACOLID’s production. In most Arab states the land used for the company buildings or for rearing animals and producing feeds were either donated by the host government or leased for long duration with a minimal rent. For example in Syria, the pastures were leased for 50 years with a very small rent and in Saudi Arabia they were granted by the Saudi government.⁵⁰⁷

In the early 1990s, ACOLID started a project in Fujairah, UAE, aiming at providing its own means of production by manufacturing all equipment, supplies and materials for its factories and plants in different branches, and even for its subsidiary companies. So far,

⁵⁰¹ Mr. Mahmoud Dannoura.

⁵⁰² The Council of Arab Economic Unity, The General Secretariat, *The Arab Joint Ventures Originating from the Council of Arab Economic Unity*, p. 4.

⁵⁰³ This fact was highly assured by all senior executives interviewed for this study.

⁵⁰⁴ Mr. Mahmoud Dannoura.

⁵⁰⁵ Mr Mohamad Takaji.

⁵⁰⁶ Dr. Ahmad Mirii.

⁵⁰⁷ Dr Mahmoud Dannoura.

the project did not supply any of ACOLID's ventures, but when operating it will reduce the cost of production and save more hard currencies, especially for Arab countries with strict currency control such as Syria, Iraq and Sudan.⁵⁰⁸

Moreover, the raw materials and goods needed for production are exempted from customs duties and any other types of taxation.⁵⁰⁹ Production is subsidised by host governments; raw materials and imported equipment are not taxed, land is provided free or at low cost and the needed capital is not taxed. All these factors made the cost of production lower. However, still ACOLID could not make reasonable profits from operational activities and could not produce for external markets as it feared foreign competition.

Personnel: the personnel management in ACOLID did not exceed 40 employees. However, there are more than 4000 production workers.⁵¹⁰ The pay rates were determined by the Board of Directors according to the pay rates criteria of each country, and usually large numbers of employees in each branch are the nationals of the host country. Employees and personnel are paid in the local currency. In addition, the pay scales are determined by the Board of Directors according to merit, skill, education and experience without any discrimination or outside interference.⁵¹¹ All employees and personnel are Arab nationals even if their countries are not among the shareholding members.⁵¹²

Differences between the managers were apparent when they were asked whether ACOLID had a staff training policy or not. Although the vice general manager insisted that each year a group of employees are trained abroad according to the needs of the corporation, two other executives denied that ACOLID had already undertaken such training sessions or it had such policy. However, ACOLID considers that it already recruited the qualified personnel and there was no need for a staff training policy since it has its own Consulting Unit for Technical and Economic Studies which is composed of respected Arab experts.⁵¹³

⁵⁰⁸ Mr Mohamad Takaji

⁵⁰⁹ Dr. Ahmad Mirii.

⁵¹⁰ Dr Ahmad Mirii.

⁵¹¹ Mr Mohamad Takaji

⁵¹² Dr Ahmad Mirii.

⁵¹³ Dr Ahmad Mirii.

Governments' policies: ACOLID's branches and subsidiaries were treated slightly different from other local joint stock corporations since their shareholders were Arab governments. ACOLID's head office in Damascus is permanently exempted from taxation on profits whereas other branches were only exempted for five years. Moreover, all imported and exported materials, equipment and products needed by ACOLID are exempted from customs duties. Furthermore, ACOLID is freed from currency restrictions adopted by host states on all transactions related to its assets and the derived revenues, the use of these assets in repaying loans and the transfer of dividends. All other transactions should be conducted in accordance with the arrangements made with the host states.⁵¹⁴ However, in states with strict currency restrictions, financial transactions were not freed. For example, the cash in hand and at banks and the investments in time deposits relating to ACOLID's activities in Syria were subject to transfer restrictions. Finally, resolution No. 762 of the AEUC, issued on 13 December 1976, dictated that all shares and transfers ordered by ACOLID are exempted from all kinds of taxation.

ACOLID enjoyed these exemptions since its activities were mainly related to agricultural and livestock production. In most shareholding members, all imports and exports and other commercial and production operations related to agriculture and livestock production are free from customs duties, tariffs and other types of taxation. Therefore, the advantage of ACOLID was owing to two main features: first, it was a multi-governmental firm in which every member government facilitates the activities of ACOLID subsidiaries on its territories. Secondly, its activities were mainly pertaining to agriculture and livestock production that are subsidised in most member states.⁵¹⁵

Regional planning and integration: In practice, the Board of Directors and directors of local projects act independently of their governments. Therefore, senior executives adopt a type of regional planning aiming at achieving maximum profits according to the objectives of the corporation. They exploit resources in member states according to the comparative advantage of each country and according to the type of production. For example, Jordan was chosen for the project of breeding stock for broiler chicken for two main reasons: first, its geographical location amid other branches since this project supplies breeding stocks for broiler chicken to all other poultry projects of ACOLID to

⁵¹⁴ Refer to resolution No. 661 of the AEUC issued on 10 June, 1974.

⁵¹⁵ Mahmoud Dannoura.

reduce members' reliance on imports of poultry. Secondly, the dry climate of Jordan is favoured by such types of poultry.⁵¹⁶

ACOLID integrates its activities in terms of livestock and fodder production and in terms of equipment in order to reduce the cost of production and achieve maximum profit. For example, the integrated poultry project in Khartoum obtains its fodder from the Khartoum feed-mill plan and its breeding stock for broiler chicken from Jordan. Moreover, lots of equipment rotate from one branch to another according to their utility in each project.⁵¹⁷

9.2.6 Assessment

The assessment of Arab joint ventures will be addressed from the main arguments raised in the introduction. The first is linked to the performance of the company in implementing its objectives, and the second is related to its role in standing as a viable and alternative model of Arab regional integration after the successive set backs of previous and larger national schemes of Arab integration.

In assessing performance, it was demonstrated previously that the net revenues of ACOLID were not obtained from its operational activities, but they derived mainly from its financial investment. The corporation has an excess of cash that it could not use it in developing livestock resources in the Arab World. Therefore, it is questioned on what basis the paid-up capital was determined. Clearly, it was randomly raised, and mostly as a result of political decisions, without any feasibility study that determines the opportunities of investment in the livestock and agriculture development. However, this does not deny the encouraging efforts of ACOLID in poultry production and development. Moreover, since the net profits of ACOLID were mainly obtained from its financial activities, the question to be asked is why each shareholder does not use its own capital and invests it more efficiently in different financial markets, without establishing such venture?

ACOLID contributed only marginally to strengthening the production capacity of its Arab shareholding members in the livestock development, and consequently, it did little to promote trade relations. Although some import-exports activities were carried out by

⁵¹⁶ Mahmoud Dannoura.

⁵¹⁷ Dr Ahmad Mirii.

ACOLID's branches, they were minimal and could not be considered an achievement in promoting trade relations.⁵¹⁸

In fact, ACOLID was left to manage its own capital independently from any political and foreign interference, which was considered an advantage; however, it did not receive any substantive cooperation from the relevant governmental institutions in conducting regional planning.⁵¹⁹

ACOLID was supported by local governments because of its type of production and activities rather than simply because it was an Arab joint venture. Moreover, in terms of management structure, financing and marketing, ACOLID did not add any innovation to corporate management and business.

In fact, ACOLID was operating under different legislative restrictions and it was influenced by adverse economic conditions existing in most Arab members, especially in terms of investments and trade relations. All these factors obstructed its functions and made its task more difficult. However, ACOLID survived and even gained more affiliates around the Arab World, which made its performance more respected in the Arab member states.

As for its role in promoting integration, ACOLID stands more as a symbol than an achievement. Although ACOLID has some advantages in promoting the experience of regional planning and the pooling and administration of some Arab reserves, its achievement was minimal in promoting integration. Moreover, ACOLID small capital was also a deficiency, since a KD 60 million (\$199.2 million) paid-up capital, in which rich states such as Saudi Arabia participated by subscribing KD 10 million (\$33.2 million), did not need the joint efforts of 11 Arab states. Generally, a joint venture is formed by partners that need skills or assets from each other which individually they cannot afford. Also, when partners find a high risk in large investments, they can minimise risk by joining efforts. However, in ACOLID, what substantial expertise or funding did the Arab member states provide to each other? In terms of capital, which could be needed by poorer countries such as Syria, Sudan and Yemen, the amount was small. In terms of expertise, they all have traditional expertise in that domain.

⁵¹⁸ Mr Mohamad Takaji

⁵¹⁹ Dr Ahmad Mirii.

Moreover, in the neo-functionalist thinking of integration, sectoral integration is essential in setting a continuous process of integration, in which one activity spills over into another domain and so on. Yet, ACOLID, after almost three decades, could not influence the Arab governments' agricultural and livestock policies,⁵²⁰ so how could it undertake cooperation into other sectors such as the social, industrial, commercial and political spheres. ACOLID was subject to the status quo, and its executives considered its survival as an achievement. This rationale was very different from the rationale of the European Coal and Steel Community (ECSC).

9.3 The Arab Company for Drug Industries and Medical Appliances, ACDIMA

The Arab Company for Drug Industries and Medical Appliances, ACDIMA, was established by resolution No. 698 of the AEUC on 4 June, 1975. However, the corporation became officially authorised to undertake its activities only after the ratification of its Memorandum of Association on 6 March, 1976 in the General Secretariat Headquarters of the AEUC.⁵²¹ ACDIMA's duration was 50 years subject to renewal.⁵²²

9.3.1 Objectives

ACDIMA shall cooperate with the concerned Arab governments and other parties to realise its purposes. Specifically, as Article 3 of its Charter stipulates, the corporation is entitled to implement the following objectives:

A- In the field of production:

- 1- Producing pharmaceutical chemicals.
- 2- Producing extracts, active ingredients and oils from medicinal and aromatic plants.
- 3- Producing biological raw materials from different sources.
- 4- Producing filling and packaging materials.

⁵²⁰ Mr Mohamad Takaji.

⁵²¹ The Arab Economic Unity Council, The General Secretariat, *The Arab Joint Ventures Originating from the Council of Arab Economic Unity*, pp. 45-6.

⁵²² Refer to Article 5 of the Charter of ACDIMA in Arab Company for Drug Industry and Medical Appliance, *Documents of Association*, in Arabic, Amman, ACDIMA, p. 35.

- 5- Producing medical appliances and equipment.
- 6- Producing human, veterinary drugs and fodder additives.
- 7- Contributing along with the Arab countries to the development of drug industries at the country level.

B- In the field of research:

- 1- Conducting necessary scientific studies and researches for the improvement and development of the already existing products.
- 2- Producing novel and active ingredients and keeping pace with the scientific progress in this regard.
- 3- Training qualified personnel to work in its (ACDIMA) field of activities.

C- In the field of Marketing:

- 1- Importing intermediate materials, commodities and production equipment pertaining to the company's activities.
- 2- Marketing its products within the Arab World and exporting the surplus.
- 3- Establishing and securing means of transportation and storage in addition to other supportive services.
- 4- Establishing, registering and protecting trade marks of the corporation's products.⁵²³

9.3.2 Organisational structure

The Memorandum of Association of ACDIMA specifies that the corporation should be supervised by two main bodies: the Board of Directors and the Annual General Meeting.

The Board of Directors: It is made up of at least seven members and at most twelve. They are selected by the Annual General Meeting to manage the corporation. Each Board member should represent no less than 500 shares. However, any shareholding

⁵²³ Refer to Article 3 of the Charter, pp.33-34.

member is entitled to have no more than two representatives in the Board no matter of what his number of shares is. The Board members are elected for three renewable years.⁵²⁴

The Board of Directors shall elect a Chairman from its members who will act as a legal representative of the corporation.⁵²⁵ The Board also appoints the general manager, other directors and representatives that can be authorised to sign on behalf of the corporation.⁵²⁶ Moreover, the Board shall dispatch to the Annual General Meeting, at least one month ahead of its annual meeting, a copy of the balance sheet, a copy of the profit and loss statement and a full abstract of the Board's report showing all contracts concluded within the previous five years. The Board has also to recommend how net profits should be distributed between shareholding members.⁵²⁷

The Annual General Meeting: It consists of all shareholding members holding more than 10 shares, but it represents all shareholders. The Chairman presides over the general meetings that convene in the corporation's headquarters. All resolutions issued by the Meeting are binding on all shareholders whether they were present or not in the meetings.

The Annual General Meeting is entitled to amend the Memorandum of Association after a request by the Board of Directors. It can also amend the objectives of the corporation, its duration and its capital. All these amendments are resolved under specific conditions cited in the Charter of the corporation.⁵²⁸

In addition to the Board of Directors and the Annual General Meeting, ACDIMA has two auditors that are appointed by the Annual General Meeting. The auditors are entitled to review ACDIMA's books, registries and instruments of headquarters as well as those of the branches. They are also allowed to check the corporation assets and obligations and audit all financial reports.⁵²⁹

⁵²⁴ Refer to Article 20 of the Charter.

⁵²⁵ Refer to Articles 23 and 29 of the Charter.

⁵²⁶ Refer to Article 30 of the Charter.

⁵²⁷ Refer to Articles 33 and 34 of the Charter.

⁵²⁸ For more on the powers of the Annual General Meeting, refer to Section IV of the Charter of ACDIMA, Articles 37-51.

⁵²⁹ Refer to Articles 52-55 of the Charter.

9.3.3 Shareholding members

The authorised capital of ACDIMA was increased from KD 50 million (\$166 million), divided among 5000 shares, to 60 million (\$199.2 million) divided among 6000 shares. Each share equals KD 10000 (\$33200). Table 9.2 below shows the shareholders and their numbers of shares, as of 31 December, 2000.

Table.9.2.The shareholders of ACDIMA as of 31 December, 2000

Shareholders	Shares	Kuwaiti Dinars
United Arab Emirates	500	5,000,000
Bahrain	50	500,000
Tunisia	100	1,000,000
Saudi Arabia	1000	10,000,000
Sudan	11	110,000
Syria	500	5,000,000
Iraq	1000	10,000,000
Oman	50	500,000
Qatar	500	5,000,000
Kuwait	500	5,000,000
Egypt	500	5,000,000
Libyan Arab Foreign investment Co.	500	5,000,000
Yemen	50	500,000
Palestine	10	100,000
Jordan Investment Corporation	15	150,000
The Arab Pharmaceutical Manufacturing Co. Ltd (Jordan)	10	100,000
Saidal/Algeria	23	230,000
Unsubscribed Shares	681	6,810,000
Total	6.000	6,000,000

Source: Arab Company for Drug Industries and Medical Appliances, *The 2000 Annual Report*, Amman, ACDIMA, p.3.

Although they have almost equal paid-up capital, ACDIMA has more shareholders than ACOLID. Moreover, unlike ACOLID, the states of the Arab Maghreb are represented in ACDIMA with 23 shares for Algeria, 100 shares for Tunisia and 500 shares for Libya. The proportion of the Arab oil exporting countries, including the Gulf States, Iraq and Libya, in the total paid-up capital forms more than 50 percent of ACDIMA's shares. This shows how the rise of oil price after the oil boom facilitated the establishment of some Arab joint ventures including ACDIMA.

9.3.4 Branches and subsidiaries

ACDIMA is based in Amman, Jordan, and it has two regional offices: one in Tunisia, and the other in Saudi Arabia. The regional office of Tunisia runs the activities of the corporation in the Arab Maghreb States and links their markets to the Arab Eastern markets. The office in Saudi Arabia takes care of the corporation activities in the Arab Gulf and Yemen. ACDIMA's expansion in different regions of the Arab World, such as the Maghreb, the Mashreq and the Gulf, reflects its strategy of integrating all Arab markets in the development of drugs and pharmaceuticals.

ACDIMA collects data and statistics related to drug consumption and production in all Arab states and uses them in specific technical and feasibility studies needed before the implementation of any project. Moreover, ACDIMA subscribes along with participating Arab governments and other parties once the project is to be realised.

ACDIMA established, in cooperation with some Arab governments and other private parties, seven drug and pharmaceutical companies, which are involved in the development and production of pharmaceutical products in the Arab World. The average contribution of ACDIMA in these companies ranged between 20 and 30 per cent.⁵³⁰

These companies are: the Pharmaceutical Solution Industries (PSI) in Jeddah, Saudi Arabia; the Gulf Pharmaceutical Industries in Ras Al Khaimah, UAE; the Saudi Pharmaceutical Industries and Medical Appliances Corporation (SPIMACO) in Al Qassim, Saudi Arabia; the Arab Company for Antibiotics Industries and their Appliances (ACAI) in Baghdad, Iraq; the Societe Arabe des Industries Pharmaceutiques

⁵³⁰ Interview with Mr Fathi Jabban, the ex-representative of Syria in the Board of Directors of ACDIMA, Damascus, 4 February, 2002.

(SAIPH) in Tunis, Tunisia; the ACDIMA-TANVEC Consultancy (ATC) in Amman, Jordan and the Tassili Arab Pharmaceutical Company (TAPHCO) in Algiers, Algeria.⁵³¹

The Pharmaceutical Solution Industries (PSI) in Jeddah manufactures medical pharmaceuticals in large volume, dialysis solutions and other related products. Its total paid-up capital is SR 100 million (\$27 million) of which ACDIMA owns 11 percent. The net profit of ACDIMA in 1999 after excluding taxes was SR 944,289 (\$254,958) or SR 1,760,000 (\$475,200) including taxes.

The Gulf Pharmaceutical Industries manufactures human pharmaceutical medicines for sale in the Middle East, North Africa and Europe. Its total paid-up capital is AED 300 million (\$81 million) of which ACDIMA owns 11 per cent. The net profit of ACDIMA in 1999 was AED 1,647,072 (\$444,709).

The Saudi Pharmaceutical Industries and Medical Appliances Corporation (SPIMACO) produces a wide range of medicines and participates in health related projects in Saudi Arabia and other Arab countries. Its total paid-up capital is SR 600 million (\$162 million) of which ACDIMA owns 20 per cent. The net profit of ACDIMA in 1999 was SR 5,850,758 (\$1,579,704) excluding taxes or SR 12 million (\$3,240,000) including taxes.

The Arab Company for Antibiotics Industries and their Appliances (ACAI) is specialised in producing antibiotics and other pharmaceuticals. Its paid up capital is ID 30 million (\$9300)⁵³² of which ACDIMA owns 25.3 per cent. ACAI started its production at the beginning of 1998 and its products are sold in the Iraqi markets. The company has suffered from a lack of cash flow after sanctions were imposed on Iraq since 1991.

The Societe Arabe des Industries Pharmaceutiques (SAIPH) produces small volume pharmaceuticals. ACDIMA owns 25 per cent of its TD 14,840,000 (\$9,942,800). SAIPH started its production in 1996. Its accumulated loss in 1999 reached TD 14,960,711 (\$10,023,676).

⁵³¹ For more on the branches and subsidiary companies of ACDIMA refer to the *website of ACDIMA: www.acdima.com* and ACDIMA's *Annual Reports* from 1991-2000.

⁵³² The Iraqi Dinar devaluated after the Second Gulf War.

The ACDIMA-TANVEC Consultancy (ATC) is a joint venture between ACDIMA and Bovis Tanvec Ltd., UK. It provides consultancy, engineering and construction management services in pharmaceuticals for the Arab World, it generated an income amounting JD 6635 (\$9355) during the year 2000.

The Tassili Arab Pharmaceutical Company (TAPHCO) was established in 2000 and it is still under construction. Its paid-up capital is \$8.8 million of which ACDIMA owns 25 per cent.

In addition to these subsidiaries, ACDIMA fully owns two branches: ACDIMA for Veterinary Medicines (ACDIVET) in Syria, and ACDIMA Centre for Bioequivalence and Pharmaceutical Studies in Jordan

ACDIMA for Veterinary Medicines (ACDIVET) is a pharmaceutical company which specialises in the production of more than 30 brands of pharmaceutical medicines and vaccines; its total paid-up capital is SP 10 million (\$2 million). This company started production in the second quarter of the 2000, and it did not make any profit until the date of this study.

The ACDIMA Centre for Bioequivalence and Pharmaceutical Studies is a non-profit research centre that carries out bioequivalence and other bio-evaluation researches for pharmaceutical companies. Its mission is “to contribute to the quality of medicines in the Arab countries, thus improving the well-being of the Arab communities”.⁵³³ This centre provides clinical, analytical, and statistical and management services in the pharmaceutical industry.

9.3.5 Performance

Assets and profit: ACDIMA suffered from different political setbacks in the Arab World which enormously affected its performance and divided its assets and reduced its profit. Initially, ACDIMA’s head office was in Cairo, however, after Camp David Accord and the consequent Arab boycott of Egypt, an extraordinary meeting was held in Tunis on August 15, 1979. A decision was made to move its headquarters to Amman, Jordan. Consequently, President Sadat of Egypt expropriated the net assets of ACDIMA in Egypt amounting to KD 17,027,997 (\$56,532,950). Many attempts and meetings

⁵³³ Refer to the Homepage of ACDIMA.

were held afterwards to reassemble the two branches of the corporation but they were unsuccessful as yet.⁵³⁴

Moreover, the second Gulf war triggered the liquidation of two subsidiaries of ACDIMA: the Kuwait Pharmaceutical Industries Company (KPICO) and the Arab Veterinary Drug Industries and their Appliances (ARAVET). KPICO losses in 1990-1991 were KD 11 million (\$36.52 million). ACDIMA held 25.3 per cent of its paid-up capital amounting to KD 2.5 million (\$8.3 million). The company was liquidated in 1991.⁵³⁵ ARAVET was liquidated in 1993 mainly because of the UN/US sanctions weakening effect on the Iraqi market, one of its biggest markets. Later on, political and economic development in Iraq also influenced the performance of ACAI, another subsidiary of ACDIMA in Baghdad since the latter was severely harmed by the sanctions in terms of importation and cash transfer.⁵³⁶

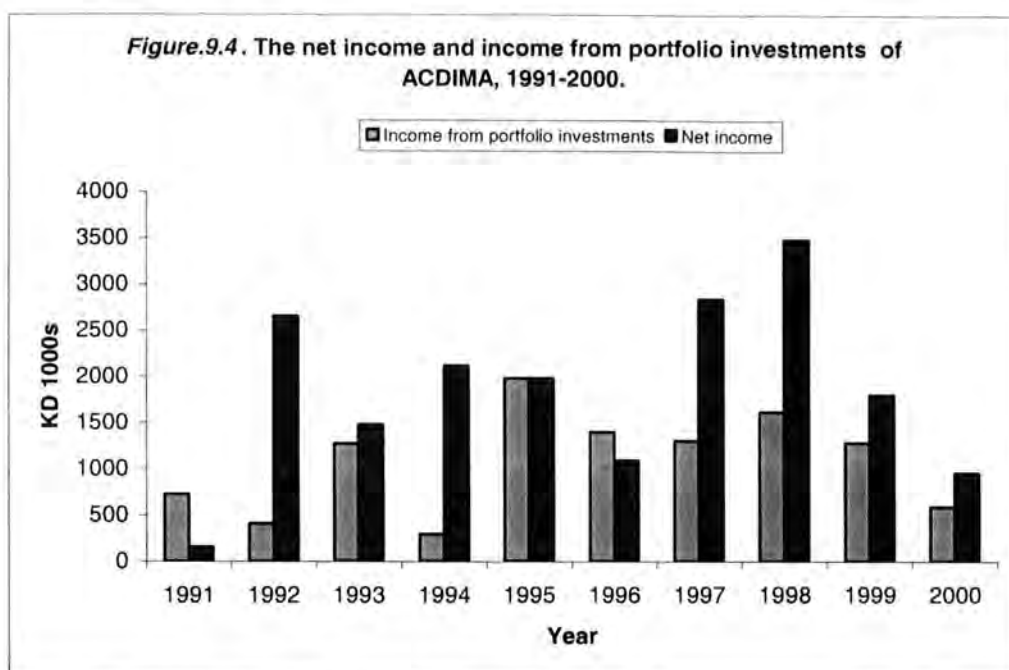
As of 31 December, 2000 the net asset of ACDIMA was KD 54,527,113 (\$181,030,015) in which the assets of ACDIMA in Egypt were included. Its total investment in subsidiaries and companies reached KD 22,265,013 (\$73,919,843) which formed around 41 per cent of its paid-up capital. Moreover, its total portfolio investments were KD 26,398,096 (\$87,641,679) or 49 per cent of its paid-up capital.⁵³⁷ After almost three decades of its establishment, ACDIMA invests half of its paid-up capital in financial markets in London and Switzerland. As figure 9.4 shows below, ACDIMA profits in 1991-2000 were highly depending on portfolio investments.

⁵³⁴ Mr Fathi Jabban

⁵³⁵ Refer to *ACDIMA, The 1991 Annual Report*, pp. 8-9.

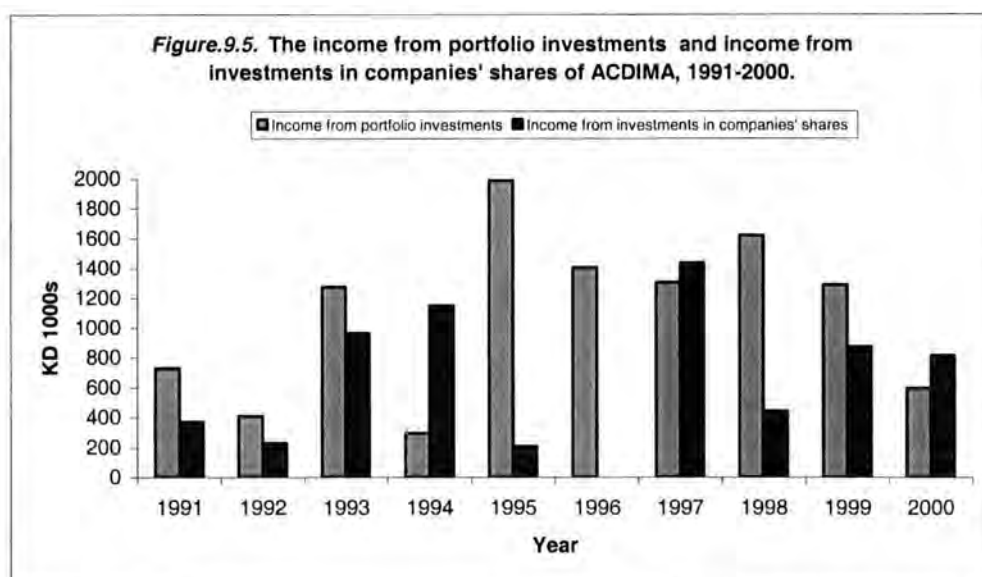
⁵³⁶ Mr Fathi Jabban

⁵³⁷ Refer to *ACDIMA, The 2000 Annual Report*, pp. 18-29.



Source: Compiled by the author using data from "the Consolidated Statements of Incomes, 1991-2000" in ACDIMA, 1991-2000 Annual Reports.

ACDIMA's profits from portfolio investments were fluctuating considerably from less than KD 300,000 (\$996,000) in 1994 to around KD 2 million (\$6.64 million) in 1995. Moreover, as figure 9.5 shows below, incomes from portfolio investments were generally exceeding incomes from investments in companies' shares.



Source: Compiled by the author using data from "the Consolidated Statements of Incomes, 1991-2000" in ACDIMA, 1991-2000 Annual Reports.

In sum, ACDIMA's profits were not satisfactory and no private enterprise with KD 60 million paid-up capital would accept such returns, however, the aims of ACDIMA's shareholders were not only making profits; they were notably extended to promote drug and pharmaceutical industries in the Arab World ensuring a degree of regional independence and knowledge acquisition.⁵³⁸

Management structure: ACDIMA works independently of the AEUC. It has two regional offices that are under the direction of the head office.⁵³⁹ Each office has to implement all instructions dispatched by the Board of Directors; it should prepare market and feasibility studies and become acquainted with the drug industries in the region assigned for a probable project. Moreover, it must provide necessary linkages and contacts and send off all recommendations whenever requested by the head office.

The regional office in Tunisia has one regional director and four employees, and the one in Saudi Arabia has one regional director and three employees. Regional directors have limited autonomy; they have to get back to the general manager for key decisions.⁵⁴⁰

ACDIVET and the Centre for Bioequivalence and Pharmaceutical Studies have different organisational structures since they are totally owned by ACDIMA; they are managed by a body of directors chaired by a regional general manager. The body of directors is supervised by a board made up of the general manager, the vice general manager, the director of financial affairs and the regional general manager. Moreover, in the case of ACDIVET, little autonomy is given to its administrative affairs; however, financially, ACDIVET is strongly linked to the head office since it does not have its own current account.⁵⁴¹

As for other affiliates, each company has its own Memorandum of Association, its Charter and its independent board of directors that manages its activities. Each company complies with the private laws of the host country.⁵⁴² Actually, these companies find difficulty in coordinating their drug manufacturing policies to avoid duplication of

⁵³⁸ Interview with Mr Ali Tawlabeh, Accounting Division Head of ACDIMA, Amman, 20 March, 2002.

⁵³⁹ Interview with Dr Hussein G. Ibrahim, Assistant Director General of ACDIMA, Amman, 20 March, 2002.

⁵⁴⁰ Interview with Mr Hakam Abd Al Rahim, Administrative Director of ACDIMA, Amman, 19 March, 2002.

⁵⁴¹ Interview with Dr Magid Kudsi, General Manager of ACDIVET, Damascus, 20 February, 2002.

⁵⁴² Dr Hussein G. Ibrahim.

pharmaceutical production. The main reason is that ACDIMA does not manage them entirely.⁵⁴³

Marketing: As a holding corporation, ACDIMA does not have its own markets. It only carries out necessary market and feasibility studies.⁵⁴⁴ Its regional offices facilitate the penetration of the products of ACDIMA's subsidiaries into different Arab markets. For example, the Saudi Pharmaceutical Industries and Medical Appliances Corporation and the Gulf Pharmaceutical Industries are two subsidiaries of ACDIMA based in the Gulf and they market their products in the Arab Maghreb thanks to the regional office in Tunisia.⁵⁴⁵ Moreover, ACDIMA's technical department provided the necessary contacts for ACDIVET to market its products, which exceed 30 registered markets, in Sudan and Oman and Dubai. ACDIVET still has negligible sales outside the Syrian market.⁵⁴⁶ Consequently, at the regional level, ACDIMA has an important role in integrating the Arab markets in the drug industry since it links the pharmaceutical producers into the necessary markets, and it provides market researches for prospective drug producers in the Arab World.

The registration of ACDIMA's products is similar to the registration of similar drugs produced by other companies. In spite of "abundant protective legislations; for example, any drug registered in one Arab country is automatically registered in all Arab states. Besides, the priority should be given to Arab brands in drug registration. However, these legislations are not implemented and this negligence hinders ACDIVET in marketing its products in other Arab markets."⁵⁴⁷

Moreover, the products of ACDIMA and its subsidiary companies were marketed because of their quality and not because they were produced by an "Arab corporation".⁵⁴⁸ However, "being an Arab venture, ACDIMA has an additional credibility since consumers are aware that it will abide by the ethics of the drug business".⁵⁴⁹ ACDIMA has a substantial productive capacity compared to other companies in the same business, and it has a respected and professional team that

⁵⁴³ Mr Fathi Jabban.

⁵⁴⁴ Mr Hakam Adl Rahim.

⁵⁴⁵ Dr Hussein G. Ibrahim.

⁵⁴⁶ Interview with Dr Abdallah Mufti, Vice General Manager of ACDIVET, Damascus, 20 February, 2002.

⁵⁴⁷ Dr Magid Kudsi.

⁵⁴⁸ Interview with Mr Raja Khalaf Addalahma, Marketing Division Head of ACDIMA, Amman, 19 March, 2002.

⁵⁴⁹ Dr Hussein G. Ibrahim.

supervises production. These two conditions make ACDIMA's drugs especially marketable.⁵⁵⁰

Production: Unlike ACOLID, ACDIMA did not receive sufficient subsidies in production. All ACDIMA's subsidiaries were not supported enough by the host governments. Moreover, ACDIVET in Syria purchased its own land and equipment from a previous company without any grant being offered by the Syrian government; however, it was exempted from all types of taxations. The reason of these exemptions was because it was an Arab joint venture.⁵⁵¹

ACDIMA owns its land in Amman and Damascus and in all other countries the ACDIMA's companies own their lands. ACDIMA's strategy to promote pharmaceutical and drug research in the Arab World made its activities quite different from ACOLID in terms of direct investment. Aside from ACDIVET, ACDIMA does not have any productive branch.⁵⁵²

ACDIVET produces generic veterinary drugs to be sold mainly in the Syrian market. It did not achieve any innovation so far, as half of its production is licensed by foreign pharmaceutical companies. Moreover, ACDIVET's experience in drug manufacturing is still limited.⁵⁵³

Production of pharmaceuticals and drugs depends on the policy and direction of the subsidiary company; it is not solely decided by ACDIMA. In general, production was not sufficiently subsidised to give the company a cost advantage, and over all its production did not reach 3 per cent of the total Arab pharmaceutical production.⁵⁵⁴

Personnel: the personnel recruited in ACDIMA were less than fifty managers in its headquarters and they are mainly Jordanians. In the regional offices there are ten managers.⁵⁵⁵ ACDIVET's personnel are around thirty managers and approximately all of them are Syrians.⁵⁵⁶ The pay rates are determined by the Board of Directors according to the pay rates criteria of the host country. The payments are paid by local

⁵⁵⁰ Dr Abdallah Mufti.

⁵⁵¹ Dr Magid Kudsi.

⁵⁵² Mr Ali Tawlabeh.

⁵⁵³ Dr Abdallah Mufti.

⁵⁵⁴ Mr Fathi Jabban.

⁵⁵⁵ Dr Hussein G. Ibrahim.

⁵⁵⁶ Dr Magid Kudsi.

currencies, and they are highly satisfactory.⁵⁵⁷ Moreover, ACDIMA's personnel are not exempted from income taxes.

ACDIMA has a different training policy for its employees. Each year, the head office runs seminars and conferences in which both staff members and visitors from other Arab drug and pharmaceutical companies attend and discuss different issues pertaining to the drug industry. Moreover, the head office usually invites Arab officials, including the Ministers of Health from the different Arab countries to discuss health policies in the Arab countries. These seminars and conferences are part of ACDIMA's objectives to develop drug industries in the Arab World.⁵⁵⁸

ACDIVET has also its own independent staff training seminars and conferences. It sends some qualified employees abroad as part of contracts signed with the foreign licensing companies.⁵⁵⁹

Government's policies: Theoretically, resolution No. 660 of the AEUC exempted ACDIMA from all taxations on gross profits as long as the corporation exists. However, the gross profits of its branches and subsidiaries in the shareholding countries are exempted for at least five years after the balance sheet shows its first profit. Moreover, the same resolution stipulated that imports and exports needed by the corporation and its subsidiaries are exempted from taxes and all restrictions imposed by the host governments. Besides, all agencies, branches and subsidiaries of ACDIMA are freed from currency restrictions on using their assets, paying off their debts or transferring their profits.⁵⁶⁰

Moreover, the same resolution affirmed that ACDIMA and its subsidiaries shall comply with private companies' law of the host countries in running their businesses, and each subsidiary shall be regulated according to its Memorandum of Association.⁵⁶¹

In practice, ACDIMA is enjoying many more benefits than other companies with similar objectives and activities, however, these services are not enough for a multi-

⁵⁵⁷ Interviews with Mr Samer Jubi, Laboratory employee in ACDIVET, Damascus, 20 February, 2002 and Mrs Salwa Khoury, Secretary in ACDIVET, Damascus, 20 February, 2002.

⁵⁵⁸ Dr Hussein G. Ibrahim.

⁵⁵⁹ Dr Abdallah Mufti.

⁵⁶⁰ Refer to resolution No. 660 of the Arab Economic Unity Council in Arab Company for Drug Industries and Medical Appliances, *Documents of Association*, in Arabic, p. 10-11.

⁵⁶¹ *Ibid.*, p. 10.

governmental company. Moreover, these amenities are not the same and they vary from one country to another.⁵⁶²

ACDIMA benefits from some services mainly because of its critical and sensitive goals and objectives. Moreover, since the health sector in all Arab countries is subsidised and since the work of ACDIMA is complementary to this sector, therefore, the corporation enjoyed additional benefits.⁵⁶³

Regional planning and integration: the regional planning of ACDIMA was not only based on comparative advantage, but also on comparative need. ACDIVET was established with a clear vision of the importance of abundant livestock resources in Syria; therefore, it was set up close to a large market.⁵⁶⁴ However, ACDIMA invested in pharmaceuticals in Algeria in 2000, a risky business environment, because private companies lacked the necessary capital to invest in pharmaceutical production and the country was only producing 15 per cent of the market needs.⁵⁶⁵ Moreover, a large pharmaceutical company was established in the desert of Al Qassim, in Saudi Arabia with no consideration made to the comparative advantage provided by Saudi Arabia in that business, but only to reduce some of the country's dependence on foreign drugs. "ACDIMA shareholders are more committed to the objectives of developing the pharmaceutical sector in the Arab World with a vision of working as a modestly profitable corporation. Even if the rate of return is less than 10 or 15 per cent, it is acceptable since the goals are quite different from any private profit making company."⁵⁶⁶

The integrative role of ACDIMA was not perceived in production, since the corporation was not the sole decision-maker in setting its subsidiaries' strategies. However, in marketing, ACDIMA played a more sensitive function in integrating Arab markets through its regional offices. Each regional office makes feasibility studies and sends them off to the head office, which dispatches all these studies to the different subsidiaries and branches of ACDIMA.⁵⁶⁷

⁵⁶² Mr Raja Khalaf Addalahma.

⁵⁶³ Dr Hussein G. Ibrahim.

⁵⁶⁴ Dr Magid Kudsi.

⁵⁶⁵ Mr Raja Khalaf Addalahma.

⁵⁶⁶ Dr Hussein G. Ibrahim.

⁵⁶⁷ Mr Raja Khalaf Addalahma.

The most important integrative position of ACDIMA was in research. ACDIMA was integrating Arab research efforts in the drug and pharmaceutical industry, and being an observer member of the Council of Arab Health Ministers, it helped in integrating the health policies of different Arab countries.⁵⁶⁸

9.3.6 Assessment

The assessment of ACDIMA will be addressed from two perspectives, as mentioned in the introduction; its performance and its role as an alternative and viable model of Arab regional integration.

In terms of performance, ACDIMA was not profiting enough from its operational activities and it was relying more on investments in financial markets. ACDIMA invested in more than 10 companies in the Arab World aiming at creating a new business environment in the pharmaceutical and drugs production; however, its activities were sensitive to political setbacks in the region.

ACDIMA executives believed that the corporation's main objectives were to promote pharmaceutical enterprises in the region and make a modest profit. On the other hand, they still use around 50 per cent of ACDIMA's paid-up capital in financial investments, which contradicts their basic claim.

In terms of pharmaceutical production, ACDIMA did not make innovations and it did not contribute to reducing the external dependence of the Arab states on drug imports, since its total production was less than 3 per cent of the total Arab production in that domain.

ACDIMA was quite successful in its marketing policy because its regional offices in the Gulf and North Africa were acting as catalysts in linking the production sites to the different Arab markets.

Similar to ACOLID, ACDIMA's subsidiaries were working under different legislative regulations and subject to different governmental policies. For example Saudi Arabia, a major shareholder, did not exempt ACDIMA's subsidiaries from taxation, whereas in Syria, ACDIVET's activities were more supported. Moreover, the Arab shareholding

⁵⁶⁸ Dr Hussein G. Ibrahim.

states were not complying with all resolutions issued by the AEUC to assist the development and progress of ACDIMA.⁵⁶⁹

In term of integration, ACDIMA could not coordinate the production policies of its subsidiaries since it did not have enough decision-making power over these companies. However, it was more successful in harmonising their marketing policies by completing market studies on the regional level.

Moreover, at the research level, the impact of ACDIMA was greater since the corporation organised many seminars and conferences in which governmental and private sector representatives met to discuss issues and policies related to the drug and pharmaceutical development.

In sum, ACDIMA's capital was insufficient to induce tangible changes in the pharmaceutical industry in the Arab World. However, it is doubtful if a capital increase will lead to operational growth, since after almost three decades, ACDIMA is only investing 40 per cent of its capital in its core activities.

ACDIMA had formal contact with the Council of Arab Health Ministers; however, it did not issue any recommendation to revise the governmental policies affecting the Council's goals. ACDIMA was inclined to maintain the status quo in the Arab pharmaceutical industry and it did not perceive any innovative policy in this respect. The reasons could be administrative, related to its experience and performance, or they could be more structural related to the investment environment in general in the Arab World. They could be both.

9.4 The Arab Mining Company, ARMICO

The Arab Mining Company, ARMICO, was established on 10 June, 1974, by resolution No. 661 of the AEUC. AEUC set up ARMICO after "being convinced of the necessity of joint projects due to their importance in realising economic integration among the member states in order to contribute to enhancing the momentum of development in these states."⁵⁷⁰

⁵⁶⁹ Mr Fathi Jabban.

⁵⁷⁰ Resolution No. 661 of the Arab Economic Unity Council, issued on 10 June 1974, in Arab Mining Company, *Statutory Rules of Associations, Memorandum and Articles of Association*, in Arabic, Amman, ARMICO, p. 3.

The same resolution stipulated that the shareholding members of this corporation should be Arab governments or any agencies or corporations assigned by these governments, provided that such entities being totally owned by Arab citizens. Moreover, resolution No. 661 specified that the Arab Mining Company must carry out its activities on a commercial basis and should adhere to commercial law.

9.4.1 Objectives

ARMICO shall cooperate with the concerned Arab governments in undertaking its technical, industrial and commercial operations. In particular, as stipulated in Article 3 of its Charter, ARMICO is entitled to:

- 1- Undertake all operations relating to the exploration of mineral deposits arising from the investments of the Company.
- 2- Conduct technical, laboratory and environmental studies on the mineral deposits discovered in the countries covered by the activities of the Company, with the aim of determining the feasibility of the economic utilisation of such deposits and of selecting the most appropriate technical methods for this purpose.
- 3- Perform all preliminary work necessary for the mining operations, including construction of roads, bridges and railways and opening tunnels within the scope of the Company's objectives in those areas containing mines suitable for economic utilisation in agreement with the states where such mines exist.
- 4- Undertake the operations of extracting minerals.
- 5- Undertake treatment of extracted deposits, including concentration, refinement, and smelting consistent with the natural properties of each kind of deposits, for the purpose of facilitating transportation and raising the market value of such deposits.

6- Undertake all operations associated with transporting and marketing the extracted deposit whether by the Company, or through other companies.

7- Handle raw materials for the purpose of the preparation and processing operations and to acquire necessary equipment and expertise in mineral skills.

8- Establish vocational training, studies and mining research centres.

9- Acquire the constructions relating to the Company's investment, and undertake all legal transactions in respect thereof.⁵⁷¹

ARMICO can conduct all investments related to its objectives in the shareholding member states or outside in agreement with the concerned governments.⁵⁷²

9.4.2 Organisational structure

Like other Arab joint ventures reviewed previously, or like any joint stock corporation, ARMICO is governed by two different bodies: the Board of Directors and the Annual General Meeting.

*The Board of Directors:*⁵⁷³ The Board of Directors manage the corporation with due regard to the powers of the Annual General Meeting. It is made up of twelve members who are elected by the Annual General Meeting for a period of three years which can be renewable. Each member shall represent at least 450 shares. The members of the Board elect a chairman and a vice chairman. The chairman acts as the legal representative of the corporation. Regularly, the Board convenes once every three months and its meetings are in quorum when they are attended by members representing at least 50 per cent of the paid-up capital.

At the end of each fiscal year, the Board must submit an annual report comprising the balance sheet and the profit and loss accounts with special attention to the investments

⁵⁷¹ Refer to Article 3 of the Charter in Arab Mining Company, *Statutory Rules of Associations, Memorandum and Articles of Association*, p. 15.

⁵⁷² Refer to Article 4 of the Charter of ARMICO.

⁵⁷³ Refer to Articles 20-36 of the Charter.

subscribed in subsidiary companies and the value, number, interest and maturity of the issued bonds. Moreover, the Board should prepare a report on the activities of the company showing all contracts signed at the end of the financial year.

*The Annual General Meeting:*⁵⁷⁴ it is made up of all shareholders and it is deemed to represent them all. Regularly, the Meeting convenes once a year for the purpose of listening to the Board reports. The Annual General Meeting is in quorum if it represents more than 50 per cent of the paid-up capital. Its resolutions are binding for all shareholders whether they attended the meetings or not.

The Annual General Meeting is entitled to amending the objectives of the corporation, its Charter and its Memorandum of Association after a request by the Board of Directors. The Meeting can also extend the term of the corporation and increase or decrease its capital. Moreover, the Annual General Meeting shall appoint two auditors who will be entitled to audit all financial books and reports of the corporation and its branches.

9.4.3 Shareholding members

The paid-up capital of ARMICO is KD 54,470,000 (\$180,840,400) divided over 5,447 shares. The value of each share is KD 10,000 (\$33,200). Fifteen shareholders subscribed to ARMICO, representing thirteen Arab states. Table 9.4 shows the subscriptions of shareholders to ARMICO's paid-up capital.

⁵⁷⁴ Refer to Articles 37-54 of the Charter.

Table.9.3. The shareholders of ARMICO as of 31 December, 2000

Shareholder	No. of Shares	Kuwaiti Dinars
United Arab Emirates	1100	11000000
Saudi Arabia	1100	11000000
Iraq	1100	11000000
Kuwait Real Estate Investment Consortium	1100	11000000
Libyan Arab Investment Company	550	5500000
Egypt	150	1500000
Yemen	78	780000
Arab Investment Company	60	600000
Bureau des Recherches et De Participation Mineres- Morocco	60	600000
Jordan Investment Corp.	55	550000
Somalia	55	550000
Syria	25	250000
Tunisia	6	60000
Mauritania	6	60000
Sudan	2	20000
Total	5447	54470000

Source: Arab Mining Company, *The Board of Directors' Annual Report and the Financial Statements, 2000*, in Arabic, Amman, ARMICO, p. 11.

The subscription of the Arab oil exporting countries constitutes around 90 per cent of the paid-up capital of ARMICO. This proportion assures that the rise of oil price after the 1973 oil boom was a major factor behind the establishment of this corporation.

9.4.4 Branches and subsidiaries

ARMICO's headquarters are in Amman and it has no regional offices. It contributed to the establishment of thirteen companies conducting operations compatible with its objectives in five Arab countries: Jordan, Iraq, Tunisia, Mauritania and Yemen. These companies are listed below.⁵⁷⁵

⁵⁷⁵ For more on the investments of ARMICO in other companies refer to the Arab Mining Company, *The Board of Directors' Annual Report and the Financial Statements, 2000*, pp. 17-50.

The Arab Potash Company (APC); it is based in Amman. Its paid-up capital is JD 32.7 million (\$46.11 million) of which ARMICO subscribed to 20.71 per cent. The Jordanian government owns the majority of shares. APC produces four grades of potash: standard, granular, fine and industrial. The company employs 2300 workers, mainly Jordanians.⁵⁷⁶ In 2000, APC recorded a net profit of JD 29.5 million (\$41.59 million), of which JD 2.8 million (\$3.95 million) are ARMICO's profits after taking out 10 per cent profit distribution tax.

The Jordan Phosphate Mines Company; the company is also based in Amman, Jordan. In 1986, ARMICO invested JD 1.53 million (\$2.17 million) amounting to 0.879 per cent of the company's JD 65 million (\$91.65 million) paid-up capital. The company produces phosphate ore and aluminium phosphate fertiliser. In 2000, the net assets of the company reached JD 127.9 million (\$180.34 million).

The Societe des Industries Chimiques du Fluore; it is based in Tunisia. ARMICO subscribed to 26.67 per cent of its TD 9 million (\$6.03 million) paid-up capital. The company produces aluminium fluoride. In 2000, the company recorded a net profit of TD 6.04 million (\$4.05 million) of which TD 720,000 (\$482,400) were ARMICO's share.

The Tankage Mediterranee; it is also based in Tunisia. Its activities are mainly storing, handling and trans-shipping petroleum and petrochemical products. ARMICO invested TD 2.65 million (\$1.77 million) in this company amounting to 21.52 per cent of its paid-up capital. The net loss attained in 2000 was TD 5.72 million (\$3.83 million) and the accumulated loss was TD 83.9 million (\$56.21 million). The Tunisian government is the biggest shareholder in this company.

The Arab Company for Detergent Chemicals (ARADET); it is based in Iraq and its main shareholders are the governments of Iraq and Saudi Arabia. ARMICO's share in this company is 10 per cent of ID 60 million (\$18,600) paid-up capital. ARADET produces and markets linear alkyl benzene. ARADET attained a net profit of ID 1.069 million (\$331.39) in 2000.

The Societe Nationale Industrielle et Minere (SNIM); it is based in Mauritania. ARMICO invested KD 8.591 million (\$28.53 million) amounting to 5.66 per cent of its

⁵⁷⁶ For information on APC refer to www.efbank.com.jo/pdf/research/apc-up.pdf

paid-up capital. The company produces iron core. In 2000, the net profit of SNIM was \$6.79 million after removing taxes.

The Societe Arabe du Fer et d'Acier (SAFA); it is also based in Mauritania. ARMICO owns 25 per cent of its shares amounting to KD 369,000 (\$1.23 million). It produces iron and steel products. In 2000, SAFA's profit was KD 18,000 (\$59,760).

The Jordan Safi Salt Company; it is based in Jordan. ARMICO owns 10 per cent of its JD 12 million (\$16.92 million) paid-up capital. The company operates a salt plant on southern shore of the Red Sea. It produces industrial salts. In 2000, the company net loss was JD 3.7 million (\$5.25 million) and its accumulated losses reached JD 5.7 million (\$8.04 million).

The Arab Engineering Industries; it is also based in Amman, Jordan. ARMICO owns 17.61 per cent of its JD 10 million (\$14.1 million). It produces equipment for crushing plants. As of 2000, its accumulated loss since establishment in 1984 reached JD 3 million (\$4.23 million).

The Societe Arab des Mineraux (SAMIN); it is based in Mauritania and ARMICO owns 27.6 per cent of its \$60 million paid-up capital. Its main objective is to exploit mineral ores in the Inshiri region of Mauritania. The company did not achieve any profit since its establishment in 1981.

The Yemeni Company for Industrial and Construction Materials; it is based in Yemen. ARMICO owns 35 per cent or KD 435,000 (\$1.44 million) of its paid-up capital. The company conducts studies on the processing and marketing of industrial metals. The company's land was expropriated in 1999 and still the compensation is not paid off.

The Compagnie Minere du Fluore et Barytine (FLUOBAR); it is based in Tunisia. The company is under liquidation after recording enormous losses. ARMICO owns 42.03 per cent of its paid-up capital amounting to KD 448,000 (\$1.49 million).

The University House for Consultations and Studies (UHCS); it was established in 1999 with a JD 700,000 (\$987,000). ARMICO owns 7 percent of its paid-up capital. Its main objective is to conduct studies and provide consultations in different industrial, mineral, economic and administrative areas. It did not achieve any profit yet.

9.4.5 Performance

Before examining the performance of ARMICO, it is necessary to mention that senior executives believed that the corporation conducted around 80 per cent of its investments in its earliest five years. This time was considered as the original strategy period, in which the focus was more on supporting and developing the mineral sectors in poor Arab countries with large mineral resources without considering primarily other criteria in initiating an investment. In fact, in studying the conditions of any investment in the Arab World the criterion of making profits was not highly stressed.⁵⁷⁷

ARMICO was carrying out its activities in the rationale of the public sector and not as a private enterprise. This strategy caused many setbacks for the corporation since most of its investments became cash consuming. Consequently, these results made the Board of Directors revise the original strategy in the late 1990s, and reconsider investment decisions on new criteria based mainly on profit and cash generation without neglecting the developmental aspects of the project or the company established. However, they recently acquired a different understanding of development and they believed that “any project that is not profitable or more precisely that is not a cash generator is not considered as a developmental project. Accordingly, the corporation will not invest in cash consuming projects anymore.”⁵⁷⁸

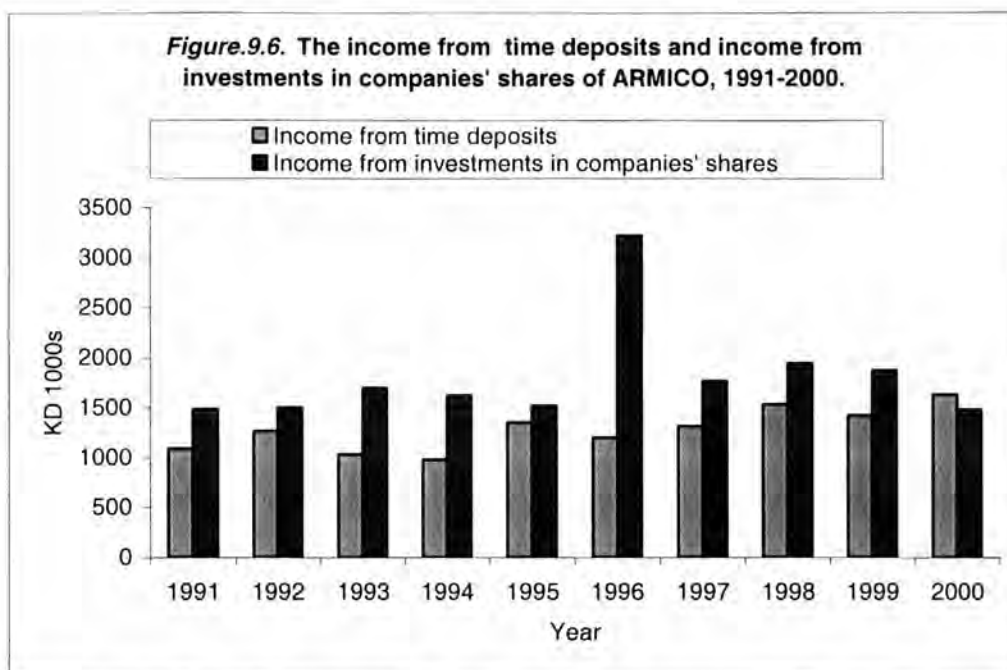
Assets and profits: The assets of ARMICO reached KD 60,028,403 (\$199,294,297) as of 31 December, 2000. Its revenues derived from bank interests and from investments in companies' shares. However, it was only in the late 1980s that some ARMICO's investments in companies' shares started generating profits.

ARMICO's time deposits were KD 23,953,830 (\$79,526,716) as of 31 December, 2000, or 44 per cent of it paid-up capital. These deposits generated relatively high returns that compensated the losses from investments in mining companies, especially during the 1980s and the beginning of the 1990s.⁵⁷⁹ These returns were approximately matched with incomes from investments in companies' shares as figure 9.6 shows.

⁵⁷⁷ Interview with Mr Mohamad Amin Hassan, Manager of Technical Department of ARMICO, Amman, 21 March, 2002.

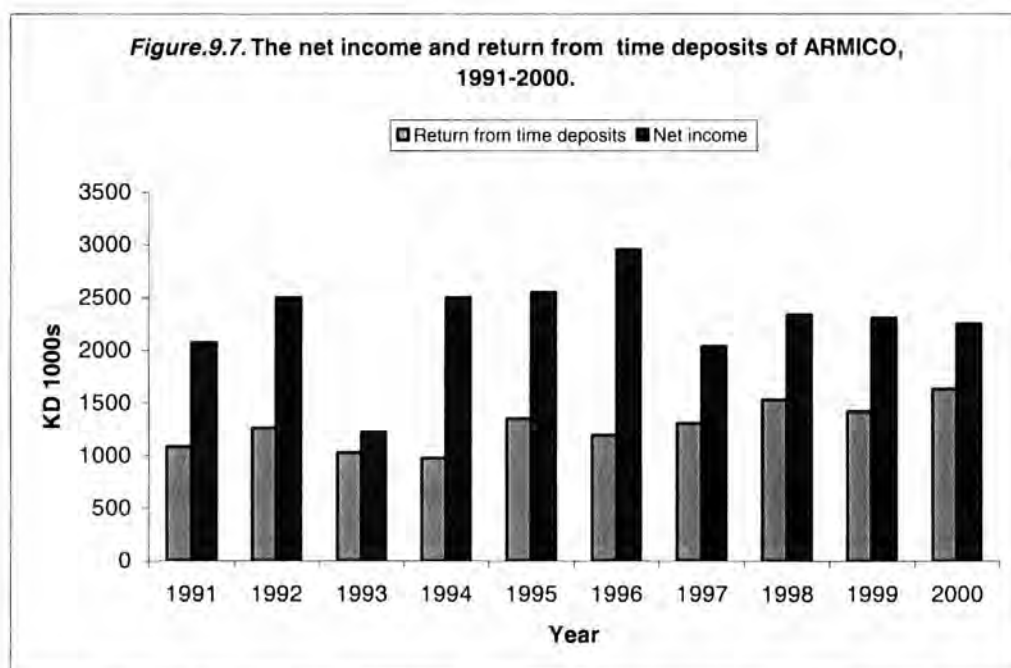
⁵⁷⁸ Mr Mohamad Amin Hasan.

⁵⁷⁹ Mr Mohamad Amin Hasan.



Source: Compiled by the author using data from "the Consolidated Statements of Incomes, 1991-2000" in *ARMICO, The Board of Directors' Annual Reports and the Financial Statements, 1991-2000*.

Moreover, unlike ACOLID and ACDIMA, ARMICO did not invest in financial securities and it mainly relied on bank interests that formed substantive proportions of the corporation net revenues, as figure 9.7 shows below.



Source: Compiled by the author using data from "the Consolidated Statements of Incomes, 1991-2000" in *ARMICO, The Board of Directors' Annual Reports and the Financial Statements, 1991-2000*.

Management structure: The head office of ARMICO is in Amman, Jordan, and the corporation has no branches or regional offices. ARMICO deals with its subsidiaries through its representatives in the Boards of Directors of these companies. The activities of the corporation are executed through two departments: the technical department and the financial and administrative department.

Marketing: The subsidiary companies of ARMICO market their products independently of the head office since the latter does not have the final decision in making the necessary harmonisation in the marketing policies. However, ARMICO dispatches its recommendations that are based on regional understanding of the Arab markets to all its subsidiaries through its representatives in the Boards of Directors.⁵⁸⁰

Production: ARMICO's subsidiaries had similar productive activities. Therefore, the corporation's bid to integrate production between these companies failed. Moreover, production was not subsidised sufficiently by the host governments largely because the mining sector necessitates a substantial support from the host governments that could not provide it in many instances. For example, the Societe Arab des Mineraux (SAMIN) inquired the installation of necessary infrastructure surrounding the project in Mauritania in 1981 and the government did not set it up until 1992.⁵⁸¹

ARMICO is freed from all taxations related to its activities in its headquarters, Amman, with exception of income taxes due on employees. These special regulations were stipulated in resolution No. 661 of the AEUC and approved by the Jordanian Cabinet.⁵⁸² In other countries, some companies were freed for at least five years of taxation and these regulations varied from one country to another.⁵⁸³

ARMICO's subsidiaries were treated generally like any other private company according to different laws and regulations governing investments in the Arab states.

ARMICO was not able to enlarge the production capacity of the Arab countries in which it conducted its investments since its paid-up capital was considered modest for a

⁵⁸⁰ Interview with Sa'd Anani, Director of Finance and Administrative Department of ARMICO, Amman, 24 March, 2002.

⁵⁸¹ Mr Sa'd Anani.

⁵⁸² Interview with Mr Yehya al Qawasmi, Head of Audit Unit in the Ministry of Industry and Commerce, the Jordanian Government, Amman, 21 March, 2002.

⁵⁸³ Mr Sa'd Anani.

capital-driven sector such as mining, and consequently, its impact on promoting regional trade was not even considered.⁵⁸⁴

Personnel: The personnel of ARMICO were less than forty managers and they were mostly Jordanians⁵⁸⁵ although Jordan, represented by the Jordan Investment Corporation, owns only 1 per cent of the corporation shares. ARMICO did not have any staff training policy, but it runs some seminars and training sessions, although not on regular basis, to keep its staff updated with new technologies and information in financial, technical and management fields.⁵⁸⁶

Government's policies: Mining is a sensitive sector and it helped some small and poor countries such as Mauritania for example to reach international markets in copper. Therefore, the members of the Board of Directors were not working independently from their governments as was the case in other Arab joint ventures reviewed in this chapter.⁵⁸⁷

Moreover, the subsidiaries of ARMICO in general were obliged to comply with dated mining laws in the host countries and they were not able to modify the status quo.⁵⁸⁸

The host governments, except Jordan being the country of the headquarters, did not provide any facilities or special treatment for ARMICO's subsidiaries. These companies were not exempted from taxation and they received no enough subsidies on imports or exports. Even in the headquarters' state, ARMICO pays taxes on the distribution of dividends.

Regional planning and integration: As mentioned above, ARMICO investments were earmarked in the early stage of its establishment. The corporation did not adopt any regional planning based on the comparative advantage of each country since its strategy was based on investing in the countries that had rich mineral resources but lacked the necessary finance to exploit them. It stressed the developmental aspects of the projects more than their potential to generate profits.⁵⁸⁹

ARMICO did not integrate its activities in the fields of production and marketing, but it did, to some extent, provide a forum for discussing and examining the mineral resources

⁵⁸⁴ Mr Mohamad Amin Hassan.

⁵⁸⁵ Interview with Mrs Madeleine Risk, Secretary in ARMICO, Amman, 21 March, 2002.

⁵⁸⁶ Mr Mohamad Amin Hassan.

⁵⁸⁷ Mr Sa'd Anani.

⁵⁸⁸ Mr Mohamad Amin Hassan.

⁵⁸⁹ Mr Sa'd Anani.

in the Arab World on a regional level. ARMICO compiled a large database on the mining sectors and on the mineral resources in most Arab countries, and such information are considered essential for any ambitious regional attempt at Arab mining integration.⁵⁹⁰

9.4.6 Assessment

In terms of performance, ARMICO was significantly affected by the rationale of its initial strategy. It was functioning as a public enterprise, spending its reserves even without determining clear criteria for profitable investment. Its objectives in achieving development were more ambiguous since the development of the mining sectors in poor countries such as Mauritania and Yemen, for instance, did not achieve tangible developmental success and the concerned governments were not even ready to cooperate in the appropriate ways. Consequently, the corporation consumed much of its capital without generating acceptable income, but thanks to bank interests ARMICO was able to limit its losses in its earliest stage.

ARMICO was far from achieving satisfactory financial profits and its dividends were not distributed each year. Therefore, financially it was considered as a failure. However, its role in achieving development was debatable; it supported for example Mauritania's efforts to improve its mining sector, whether in exploring and processing its mineral resources or in framing its mining legislation or in reaching the international market for copper. And this was considered as an advantage for ARMICO to be involved.⁵⁹¹

ARMICO's capital was not sufficient to generate tangible and quantifiable outcome in the mining sectors of the participating Arab states. Moreover, increasing its capital was not considered feasible in the short term, since the shareholders would not accept it with such a poor performance. In fact, any increase in ARMICO's capital is mainly based on its "success stories" in the field of mining, and mainly on its financial profits.⁵⁹²

Moreover, in terms of promoting integration, the impact of ARMICO was not significant. The corporation has collected considerable data on Arab mineral resources that were used by Arab governments and Arab and foreign private enterprises.

⁵⁹⁰ Mr Sa'd Anani.

⁵⁹¹ Mr Mohamad Amin Hassan.

⁵⁹² Mr Sa'd Anani.

Moreover, ARMICO was acting as a forum for Arab and foreign experts in the mining sectors and it brought to international attention the Arab mineral resources in poor countries such as Yemen and Mauritania.

However, ARMICO did little to promote trade relations between Arab countries since it did not have significant investments in these countries, and it was not capable of changing the mining infrastructure of its participant states.⁵⁹³

9.5 Conclusion

The assessment of the Arab joint ventures examined in this chapter is quite controversial since the criteria of measurement are not comprehensible for at least two reasons. First, the status of these ventures is not very well defined. They were established by the LAS with public funds and they conduct their activities as private companies under the regulations of corporate laws. They do not have the status of “supranationality” mentioned by neo-functionalists as they did not enjoy any authority that is similar or above the authority of the state. Besides, they could not pool their resources independently at the regional level. On the other hand, they were treated as private companies because Arab governments did not have the necessary legislation to define their functions.

Secondly, the assessment of these ventures cannot be solely based on finance theory; they were established not just to achieve financial profits and distribute dividends, but had other objectives to fulfil, notably achieving development in poor countries and promoting Arab regional integration. These factors were also divisive and they lacked clear criteria for measurement.

However, by referring to the hypotheses addressed in the introduction of this chapter, it is certainly confirmed that Arab joint ventures endured more than larger schemes of integration originated by the LAS. They were affected by political events that shaped the Arab World but they were more resistant to such changes since the latter did not affect the status of the regimes nor the integrity of any Arab state.

Moreover, these ventures were sector-oriented, and it was assumed that they had more focused and limited objectives. Consequently, their roles in development should be

⁵⁹³ Mr Sa'd Anani.

more significant and measured in the sectors involved. However, neither ACOLID, ACDIMA nor ARMICO had tangible impact in this respect. The reasons were mainly due to their relatively small capital and the limitations imposed by states on their investments.

Besides, these Arab ventures did not enlarge Arab markets and promote trade relations. They did not produce a notable change in the production capacity of the Arab World. This problem was also related to their relatively small capital. However, this predicament is a vicious circle; the capital would not increase unless investment environment would change and the latter would not be promoted unless by reducing inter-state trade and investment restrictions. The easing of such restrictions would attract capital. It was obvious that all reviewed ventures did not use more than 50 per cent of their paid-up capital in operational activities, and this reflects mainly the lack of investment opportunities in the three sectors, livestock, pharmaceutical and mining in the Arab countries.

Finally, these ventures were assumed to attract private sector investments unlike Arab large-scale integrational attempts in which private enterprises were not involved. However, in the cases of ACOLID, ACDIMA and ARMICO, the private sector was not a real partner, especially in ARMICO. This mainly reflects the divergence of objectives between these ventures and the private sector which gears up for financial profits.

To conclude, by using a neo-functionalist approach in evaluating these ventures, it appears that the Arab sectoral regional integration had started, but it was not self sustaining and it barely set a process of integration in motion. Although, these ventures survived, they did not spill-over to other sectors and keep the process of integration continue. In fact, all the Arab joint ventures established by the AEUC were launched in the mid and late 1970s, and since then, no one venture was established by the AEUC. This reflects the failure of these ventures to achieve their ultimate objectives completely in promoting Arab regional integration. However, this does not mirror the end of the process of Arab sectoral regional integration as even in the history of the European Union there were periods during which the process was slowed down and even on the verge of being brought to a halt.

The joint ventures reviewed in this chapter could not act as alternative models for the larger scheme Arab integrational attempts since their viability and development

depended on both domestic and regional economic and political conditions. Unfortunately, these conditions are still not conducive or favourable to achieve better results. These ventures cannot by themselves change the investment environment in the Arab countries, but they could have been a model of success to be imitated in the future if they had demonstrated tangible benefits from Arab regional integration.

CHAPTER TEN

SUMMARY AND CONCLUSION

10.1 Introduction

This chapter comprises four sections. The first reviews briefly the content of the thesis. The second assesses the impact of the study on the debate on Arab regional integration. The third section recommends relevant areas for further research. Finally, the last section turns from the theoretical implications to the practical outcomes suggested for the Arab countries involved to proceed further in regional integration.

10.2 Thesis reviewed

The thesis set forth two theoretical approaches in the analysis of Arab regional integration: neo-functionalism and the transactionalist approach. The neo-functionalist approach was employed in examining the *process* of integration in the Arab World. It analysed the institutional building of the LAS and three Arab joint ventures established by the AEUC. The analysis focused on the role of these regional institutions in setting a process in motion in which integration in one sector can lead to further integration. Moreover, business and finance theories were employed to study the performance of the reviewed Arab joint ventures.

It was worth noting that the joint ventures were more capable of resisting regional political changes and producing more tangible benefits, admittedly limited, than other larger scale regional attempts at integration initiated by the League. Moreover, after studying the role of the regional institutions reviewed in this thesis, the neo-functionalists drew the following conclusions: first, where both the League and the Arab joint ventures lacked a real aspect of supranationality, it was clear that the joint ventures were granted more power to make their decisions independently. Secondly, both the League and the joint ventures had limited influence in changing the political attitudes of

their managers since they were both operating within the conditions of the host states and it was not clear to what extent these institutions were able independently to set forth their objectives and plans. Thirdly, the joint ventures were more successful in inducing a collective decision-making model since they were less politicised and more managerially oriented, and their objectives were more limited. However, these collective models could not operate on commercial bases since they mirrored the public governmental management. Finally, both the League and the governmental ventures showed a conspicuous failure in promoting deeper integration. The burgeoning of the League's branches and bodies did not reflect the development of a systematic process but it echoed rather the chaotic rhetoric of Arab integration. As for the reviewed Arab joint ventures they were deemed to mirror the status quo.

The transactionalist approach was used in examining the impact of trade as an economic condition on Arab integration in the Arab Mashreq. It was obvious that the regional trade in the Arab World in general was not significant since it was hindered by many political, economic and physical barriers. Moreover, the regional trade of the Arab Mashreq had developed mainly because of bilateral agreements between Arab states, and it was more influenced by domestic economic liberalisation programmes since most regional attempts to promote trade between Arab states were politically and not commercially inspired.

Moreover, even though inter-Arab Mashreq trade was not considered a favourable economic condition for integration, many political and economic integrational attempts occurred in the Arab Mashreq. With exception of the 1953 trade agreements, almost all attempts at regional integration were not prompted by regional trade. For example, the UAR was established when the bilateral trade of Egypt and Syria was minimal and did not form any significant proportion of their foreign trade. The ACM was established at a time when regional trade formed less than 7 per cent of the Arab Mashreq foreign trade. It was clear that when the Arab discourse was highly ideological after the rise of Nasser and the Baath, the impact of economic conditions including trade became less significant. Accordingly, the transactionalist approach became less useful in explaining the integrational attempts that occurred in the Arab Mashreq since they were politically stimulated.

10.3 Theoretical considerations

The use of the neo-functionalist and transactionalist approaches to study Arab regional integration in this thesis was important in changing the outlook by which analysts approached the topic. Arab regional integration was usually considered as an ideological matter in which a sacred dream should be fulfilled: Arab unity. However, the application of these approaches has divided the concept into two components: the process and the conditions. The focus shifted from “the Arabs must integrate” to “why the Arabs integrate”. The examination of Arab regional integration was not only inspired by a post colonial or liberation hopes, it was more integrated to new methods and objectives of regionalism. In sum, the analysis became more phenomenological than ideological.

The linkage of Arab integration to Arabism has deeply influenced the concept and its analysis. The literature on Arab regional integration lacked the use of a methodological approach and it mostly reflected praise or criticism of Arab discourses. The debate did not differentiate between the process and its conditions; most examinations were descriptive or prescriptive. Although Hudson in *The Middle East Dilemma* tried to approach the issue from an international relations’ perspective, his work ended up divided into political and economic aspects of integration in which no differentiation between the conditions and the process appeared, and no real examination of the development of the phenomenon at the regional level was shown. The focus appeared to be on attempts at regional integration in the Arab region.

The employment of neo-functionalism added a new theoretical element to the analysis of Arab regional integration since it separated the process of integration from the discourse of Arabism. The process by itself was studied in the institutional build up of regional organisations such as the LAS and the three joint ventures reviewed previously, and Arabism was examined as one independent variable. The process of Arab integration was not embedded or confused with the culture or discourse of Arabism.

Moreover, when the transactionalist approach was used to examine regional trade as a condition for integration in the Arab Mashreq, Arabism was not taken for granted as a favourable condition. This new methodology added new tangible and measurable elements to the study of Arab integration.

Even though the application of these theoretical approaches is considered a novelty in the analysis of Arab integration, this does not deny the fact that these approaches have two important weaknesses in addressing the issue. First, they are both more relevant in analysing integration among a regional grouping of liberal democratic states with advanced industrialised economies. The reason is they consider the role of private sector or civil society in general in influencing the development of integration in any putative region. Arab societies were highly shaped by their governments and it was debatable how actually they were represented by such governments. Moreover, the private sector was never a real partner in the process of Arab integration. It was absent from the LAS and it has very limited participation in the Arab joint ventures established by the AEUC. Therefore, when applying these approaches to the Arab countries, Arab integration is considered more “intergovernmental” than “regional”.

The second weakness is rooted in the theoretical approaches themselves. Both neo-functionalism and the transactionalist approach did not define the end stages of integration. Therefore, it was impractical for a researcher to determine how the process succeeded or reached its final stage. In the case of the Arab countries, the Arab partners in most integrational attempts have reiterated implicitly or ultimately that the end stage should be the establishment of the political unity of the Arab World or the resurrection of the Arab nation, *Al Umma Al Arabia*. The Arab integration discourse was always defining an end stage but the employed theoretical approaches focused more on the *how* and *why* of Arab integration. This made the judgment confusing especially as the end stage of Arab integration never materialised.

In sum, the thesis avoided the normative aspect of judging Arab integration. It was more performance-oriented based on new elements of analysis provided by advanced theoretical approaches. It also aimed at pushing the debate further into scientific and more systematic methods without prejudging that the previous failures of Arab integration should dismiss the issue and without assuming that Arab integration is an indispensable necessity for Arabs.

10.4 Further research

The theoretical approaches used to analyse Arab integration are useful since they keep the debate ongoing in the context of regionalism. Arab integration and Arab unity

debates are outdated if only studied from an ideological perspective and plenty of evidence was provided in the thesis showing real changes in the Arab political discourses.

Arab integration ought to be approached from both the political and economic aspects but with careful consideration of the growing awareness of regionalism. Regional attempts may include neighbouring countries even if they are not Arab and may exclude other Arab countries not ready to integrate. The major attraction of integration is not its ideological appeal, but rather its impact on the political and economic development of the region.

At the political level, further research has to examine the impact of the political unity discourse that emerged in the Mashreq. No regional integrational attempts survived in the Arab Mashreq in contrast with other successful Arab attempts elsewhere such as the Gulf Cooperation Council. The GCC, which was stressing economic and material benefits more than ideological ones, showed a relative success whereas ambitious attempts at integration in the Arab Mashreq, which was the cradle of Arabism and Arab unity rhetoric, witnessed major setbacks and they were deemed to fail.

Moreover, at the economic level further research should investigate different economic conditions for integration such as investment flows, capital and labour movement since foreign trade alone is not enough to give a clear picture about the prospect of economic integration in the Arab Mashreq.

10.5 Practical considerations

Arab regional integration is promising if approached in the context of economic development. Integration should not be restricted to a tariff issue but it should be studied as a strategy of economic development in the Arab World. In that respect, economic benefits must be tangible to push the process further. Consequently, sectoral integration ought to be stressed and Arab joint ventures should be encouraged, but on different underlying principles.

The Arab joint ventures examined in this thesis were carrying out their activities in the rationale of the public sector and not as private enterprises. They were not viewed as successful models because they ran industries just as Arab governments did. Their strategy faced many setbacks and their investments became cash consuming.

These governmental ventures were clearly not self sustaining in terms of generating profits to plough back into further investments. They were influenced by governmental understanding of development; therefore, they were not looking for commercial benefits.

Moreover, these ventures have not promoted much technological independence, as technical transfer from the West must continue. They have clearly failed to promote human capital formation and skill acquisition. Also, they have contributed little to employment and inter-Arab movement of people across borders. Finally, their effect on trade has been minimal as well. In fact, after the establishment of these ventures in the mid 1970s, statistical data showed no increase in regional trade in the 1980s and the 1990s, as chapter seven revealed.

All these weaknesses do not eliminate the potential of these ventures to initiate a viable process of regional integration in the Arab World. However, these ventures have to reconsider investment decisions on new criteria based mainly on profit and cash generation without neglecting the developmental aspects of the project or the company established. Moreover, they must acquire a different understanding of development based on commercial viability. They should not establish projects which are not profitable or cash generating.

This alternative approach needs a real transformation in the investment and trade environment in the Arab World, notwithstanding the successful and rapid implementation of privatisation and structural adjustment programmes in the Arab countries. This transformation could occur through functional institutions. The GAFTA may play an important role in this respect if it encourages the Arab countries to adopt common investment laws and trade policies so that the Arab World could become a single market for trade and private capital. This harmonisation of investment and trade laws necessitates more liberalisation of capital and labour movement between Arab countries. This seems a remote prospect since regrettably GAFTA is still approaching Arab integration merely as a tariff issue.⁵⁹⁴

⁵⁹⁴ Interview with Dr Nabil Sukkar, Syrian economist, Damascus, 30 January, 2002.

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APPENDICES

APPENDIX A

CHARTER OF THE LEAGUE OF ARAB STATES

Article 1: The League of Arab States is composed of the independent Arab states which have signed this Charter.

Any independent Arab state has the right to become a member of the League. If it desires to do so, it shall submit a request which will be deposited with the Permanent Secretariat General and submitted to the Council at the first meeting held after submission of the request.

Article 2: The League has as its purpose the strengthening of the relations between the member-states, the coordination of their policies in order to achieve co-operation between them and to safeguard their independence and sovereignty; and a general concern with the affairs and interests of the Arab countries. It has also as its purpose the close co-operation of the member-states, with due regard to the organisation and circumstances of each state, on the following matters:

- A. Economic and financial affairs, including commercial relations, customs, currency, and questions of agriculture and industry.
- B. Communications; this includes railroads, roads, aviation, navigation, telegraphs and posts.
- C. Cultural affairs.
- D. Nationality, passports, visas, execution of judgments and extradition of criminals.
- E. Social affairs.
- F. Health affairs.

Article 3: The League shall possess a Council composed of the representatives of the member-states of the League: each state shall have a single vote, irrespective of the number of its representatives.

It shall be the task of the Council to achieve the realisation of the objectives of the League and to supervise the execution of the agreements which the member-states have concluded on the questions enumerated in the preceding Article, or on any other questions.

It likewise shall be the Council task to decide upon the means by which the League is to co-operate with the international bodies to be created in the future in order to guarantee security and peace and regulate economic and social relations.

Article 4: For each of the questions listed in Article 2 there shall be set up a special committee in which the member-states of the League shall be represented. These committees shall be charged with the task of laying down the principles and the extent of co-operation. Such principles shall be formulated as draft agreements to be presented to the Council for examination preparatory to their submission to the aforesaid states.

Representatives of the other Arab countries may take part in the work of the aforesaid committees. The Council shall determine the conditions under which these representatives may be permitted to participate and the rules governing such representation.

Article 5: Any resort to force in order to resolve disputes between two or more member-states of the League is prohibited. If there should arise among them a difference which does not concern a state's independence, sovereignty, or territorial integrity, and if the parties to the dispute have recourse to the Council for the settlement of this difference, the decision of the Council shall then be enforceable and obligatory.

In such case, the states between whom the difference has arisen shall not participate in the deliberations and decisions of the Council.

The Council shall mediate in all differences which threaten to lead to war between two member-states, or a member-state and a third state, with a view to bringing about their reconciliation.

Decisions of arbitration and mediation shall be taken by majority vote.

Article 6: In case of aggression or threat of aggression by one state against a member-state, the state which has been attacked or threatened with aggression may demand the immediate convocation of the Council.

The Council shall by a unanimous decision determine the measures necessary to repulse the aggression. If the aggressor is a member-state, his vote shall not be counted in determining unanimity.

If, as a result of the attack, the government of the state attacked find itself unable to communicate with the Council, the state's representative in the Council shall request the convocation of the Council for the purpose indicated in the foregoing paragraph. In the event that this representative is unable to communicate with the Council, any member-state of the League shall have the right to request the convocation of the Council.

Article 7: Unanimous decisions of the Council shall be binding upon all member-states of the League; majority decisions shall be binding only upon those states which have accepted them.

In either case the decisions of the Council shall be enforced in each member-state according to its respective laws.

Article 8: Each member-state shall respect the systems of the government established in the other member-states and regard them as exclusive concerns of those states. Each shall pledge to abstain from any action calculated to change established systems of government.

Article 9: States of the League which desire to establish closer co-operation and stronger bonds than are provided for by this Charter may conclude agreements to that end.

Treaties and agreements already concluded or to be concluded in the future between a member-state and another state shall not be binding or restrictive upon other members.

Article 10: The permanent seat of the League of Arab States is established in Cairo. The Council may, however, assemble at any other place it may designate.

Article 11: The Council of League shall convene in ordinary session twice a year, in March and in September. It shall convene in extraordinary session upon the request of two member-states of the League whenever the need arises.

Article 12: The League shall have a permanent Secretariat-General which shall consist of a Secretary-General, Assistant Secretaries and an appropriate number of officials.

The Council of the League shall appoint the Secretary-General by a majority of two thirds of the States of the League. The Secretary-General, with the approval of the Council, shall appoint the Assistant Secretaries and the principal officials of the League.

The Council of the League shall establish an administrative regulation for the functions of the Secretariat-General and matters relating to the staff.

The Secretary-General shall have the rank of Ambassador and the Assistant Secretaries that of Ministers Plenipotentiary.

The first Secretary-General of the League is named in an annex to this Charter.

Article 13: The Secretary-General shall prepare the draft of the budget of the League and shall submit it to the Council for approval before the beginning of each fiscal year.

The Council shall fix the share of the expenses to be borne by each state of the League. This may be reconsidered if necessary.

Article 14: The members of the Council of the League as well as the members of the committees and the officials who are to be designated in the administrative regulation shall enjoy diplomatic privileges and immunity when engaged in the exercise of their functions.

The buildings occupied by the organs of the League shall be inviolable.

Article 15: The first meeting of the Council shall be convened at the invitation of the Head of the Egyptian Government. Thereafter it shall be convened at the invitation of the Secretary-General.

The representatives of the member-states of the League shall alternately assume the presidency of the Council at each of its ordinary sessions.

Article 16: Except in cases specifically indicated in this Charter, a majority vote of the Council shall be sufficient to make enforceable decisions on the following matters:

- A. Matters relating to personnel.
- B. Adoption of the budget of the League.
- C. Establishment of the administrative regulations for the Council, the committees and the Secretariat General.
- D. Decisions to adjourn the sessions.

Article 17: Each member-state of the League shall deposit with the Secretariat-General one copy of treaty or agreement concluded or to be concluded in the future between itself and another member-state of the League or a third state.

Article 18: If a member-state contemplates withdrawal from the League, it shall inform the Council of its intention one year before such withdrawal is to go into effect.

The Council of the League may consider any state which fails to fulfil its obligations under the Charter as having become separated from the League; this is to go into effect upon a unanimous decision of the states, not counting the state concerned.

Article 19: This Charter may be amended with the consent of two thirds of the states belonging to the League, especially in order to make firmer and stronger the ties between the member-states, to create an Arab Tribunal of Arbitration, and to regulate the relations of the League with any international bodies to be created in the future to guarantee security and peace.

Final action on amendment cannot be taken prior to the session following the session in which the motion was initiated.

If a state does not accept such an amendment it may withdraw at such time as the amendment goes into effect, without being bound by the provisions of the preceding Article.

Article 20: This Charter and its annexes shall be ratified according to the basic laws in force among the High Contracting Parties.

The instrument of ratification shall be deposited with the Secretariat-General of the Council and the Charter shall become operative as regards each ratifying state fifteen days after the Secretary-General has received the instruments of ratification from four states.

This Charter has been drawn up in Cairo in the Arabic language on this 8th day of Rabi II, thirteen hundred and sixty four H. (March 22, 1945), in one copy which shall be deposited in the safe keeping of the Secretariat-General.

An identical copy shall be delivered to each state of the League.

Source: Information Directorate of the League of Arab States, *The League of Arab States: Basic Information*, Cairo, League of Arab States, 1995, pp. 27-35.

APPENDIX B

ARAB ECONOMIC UNITY AGREEMENT

The governments of : the Hashemite kingdom of Jordan; the Tunisian Republic; the Republic of Sudan; the Republic of Iraq; the Saudi Arabian Kingdom; the Syrian Arab Republic; the United Arab Republic; the Lebanese Republic; the United Libyan Kingdom; the Yemenite Kingdom; the Kingdom of Morocco; and the State of Kuwait;

In pursuance of their desire to organise and consolidate economic relations among the Arab League States on principles conforming with the natural and historical ties among them, and with view to creating the best conditions for the advancement for their economy, for promoting their wealth and ensuring the welfare of their peoples, have agreed on setting up a complete unity among themselves to be achieved gradually with the speed commensurate with effecting their transfer from the present to the desired situation without detriment to its vital interests, in accordance with the following stipulations:

Chapter I

Objectives and Methods

Article 1: A complete economic unity shall be established among the Arab League States. The member states and their nationals are guaranteed the following on equal footing:

1. Freedom of movements of persons and capitals;
2. Freedom of exchange of domestic and foreign goods and products;
3. Freedom of transport and transit and of using means of transport, ports and civil airports;
4. Freedom of residence, work, employment and exercise of economic activities; and
5. Rights of ownership, of making one's will and inheritance.

Article 2: For attaining the unity mentioned in Article 1 the contracting states shall work for accomplishing the following:

1. The Arab states should be made one customs zone subject to a single administration. Customs' tariffs, legislations and regulations applied in these states should be standardised.
2. The Arab states should work for standardising regulations thereof.
3. Concluding collective trade agreements and payments agreements with third countries.
4. Standardising transport and transit systems.
5. Coordinating policies related to agriculture, industry and internal trade. Economic legislations should be standardised in a manner ensuring equal terms to all nationals of the contracting countries with respect to work in agriculture, industry and other professions.
6. A. Coordinating legislations concerning government and municipal taxes and duties and all other taxes pertaining to agriculture, industry, trade, real estate, and capital investments in a manner ensuring equal opportunities.
7. B. Avoiding double taxation and duties levied on the nationals of the contracting parties.
8. Coordinating labour and social insurance legislation.
9. The coordination of monetary and fiscal policies and all regulations thereof the contracting countries should be undertaken as a prerequisite for the standardisation of the currency.
10. Standardizing the methods of the classification of statistics.
11. All necessary measures should be taken to ensure the attainment of the goals specified in Articles 1 and 2 of the Agreement.

It is, however, possible to circumvent the principle of standardisation in respect of certain circumstances and certain countries subject to the approval of the Council of Arab Economic Unity.

Chapter II

Organisation

Article 3: An organisation bearing the name of the Arab Economic Unity Council shall be established. Its functions and terms of references are specified in accordance with the provisions of this Agreement.

Article 4: 1. The Council shall be composed of one or more full members from each of the contracting parties.

2. Cairo shall be the permanent headquarters of the Council and the Council may convene in any other place it shall specify.

3. The presidency of the Council is for one year and by rotation among the contracting countries.

4. The Council takes its decisions by a two-thirds majority and each state has one vote.

Article 5: 1. The Council is assisted in discharging its responsibilities by economic and administrative committees, both permanent and provisional whose functions are outlined by the Council.

2. The following permanent committees shall provisionally be established:

A. The customs Committee, to consider the technical and administrative and customs affairs.

B. The Monetary and Financial Committee, to undertake the handling of affairs pertaining to monetary and banking matters, taxes, duties and other financial affairs.

C. The Economic Committee, to handle the affairs pertaining to agriculture, industry, trade, transport, communications, labour and social insurance.

The Council may set up other committees when it seems necessary.

3. Each of the contracting parties shall appoint its representatives on the above-mentioned permanent committees. Each party shall have one single vote.

Article 6: 1. A permanent Technical Advisory Bureau shall be established in the Arab Economic Unity Council, composed of experts appointed by the Council, and shall function under its supervision.

2. The Technical Bureau shall undertake the study of the matters referred to it by either Council or any of its committees. The Bureau shall submit studies and proposals ensuring harmony and coordination in matters within the Council's jurisdiction.

3. The Council shall establish a central office for statistics. The office shall collect, analyse statistics and when deemed necessary it shall publish them.

Article 7: 1. The Council and its subsidiaries shall constitute one entity enjoying financial and administrative autonomy, and holding a special budget.

2. The Council shall draft its own regulations and those for its affiliated bodies.

Article 8: In the course of a period not exceeding one month from the date of putting this Agreement into force, the contracting countries shall nominate their representatives to the Council and its committees as specified in Article 5 paragraph 2 of this Agreement. The Council shall exercise its functions immediately after its formation. The Council shall then form its affiliated bodies.

Article 9: The Council shall exercise, in general, all the functions and powers specified in this Agreement and its protocols or what it shall deem necessary for ensuring its implementation. Particularly, the Council shall undertake in the fields of:

1. Administration

- A. To work towards the implementation of the provisions of this Agreement and its protocols and all the regulations and decisions issued for the purpose of implementation of the Agreement and its protocols.
- B. To run the committees and the affiliated bodies.
- C. To appoint Council staff members and experts in conformity with the provisions of this Agreement.

2. Organisation and legislation

- A. Formulating regulations and legislations aiming at the creation of an Arab Customs Union and introducing amendments when deemed necessary.
- B. Coordinating foreign trade policies with a view to ensuring the coordination of the region's economy vis-à-vis the world economy and the attainment of the objectives of economic unity specified in this Agreement. The conclusion of trade agreements and of payments agreements with other countries shall be subject to the approval of the Arab Economic Unity Council.
- C. Coordinating economic development and formulating programme for the attainment of multilateral economic development projects.
- D. Coordinating policies for agriculture, industry, and internal trade.
- E. Harmonising financial and monetary policies with the purpose of standardising currency.
- F. Working out common regulations for transport and transit in the contracting countries and coordinating the relevant policies.
- G. Drafting common legislations on labour and social security, and amendments thereto.
- H. Coordinating legislations for taxes and duties.
- I. Formulating all other legislations pertaining to matters stipulated in the Agreement and its protocols, deemed necessary for the realisation and implementation.
- J. Submit a budget for the Council and its affiliates and obtain approval thereof.

Article 10: Outlays of the Council and its affiliated organs shall be covered by appropriation from common revenues. Pending the realisation of such revenues the governments shall participate to the expenditures according to quotas to be fixed by the Council.

Article 11: The Council's common revenues shall be apportioned among governments of the contracting parties by mutual agreement on the basis of a study to be conducted by the Council prior to the implementation of the Customs Union.

Article 12: The Council shall exercise its powers under this Agreement and its protocols in accordance with resolutions to be executed by the member states in accordance with their constitutional rules.

Article 13: The governments of the contracting parties shall pledge not to promulgate any laws, regulations or administrative decisions contradictory to the Agreement or its protocol.

Chapter III

Transitional Provisions

Article 14: 1. The implementation of this Agreement is to take place in successive stages and in the shortest possible time.

2. The Council shall upon its formation draw up a practical plan for the stages of implementation and specify the legislative, administrative and technical procedures necessary for each stage taking into consideration the protocol concerning the steps conducive to the realisation of Arab economic unity which is attached to the Agreement and constituting an integral part thereof.

3. The Council, on exercising its functions specified in this Agreement, shall take into account certain circumstances prevalent in some of the contracting countries without prejudice to the objectives of the Arab economic unity.

4. The Council, together with the contracting parties, shall carry out the procedures specified in paragraph 2 of this article according to this Agreement's provision.

Article 15: Any two or more of the contracting parties may conclude economic agreements with a view to realising under wider unity than that provided for under this Agreement.

Chapter IV

Ratification, Accession, and Withdrawal

Article 16: This Agreement shall be ratified by states signatory thereto in conformity with their respective constitutional requirements within the shortest time possible. The

instruments of ratification shall be deposited with the General Secretariat of the Arab League which shall in turn prepare the minutes thereof and notify the other contracting parties.

Article 17: The Arab League member states non-signatories to this Agreement may accede thereto by notification to be submitted to the Secretary General of the Arab League who shall give a notice thereof to the other states signatory to the Agreement.

Article 18: Arab states non-members to the Arab League may accede to this agreement subject to the approval of the contracting parties by notification to be sent to the Arab League Secretary General and a notice thereof shall consequently be transmitted to the contracting states seeking their approval.

Article 19: Any of the contracting parties may withdraw from this Agreement five years after the expiry of the transitory period. The withdrawal shall be effective one year from the date of application for withdrawal submitted to the General Secretariat of the League of Arab States.

Article 20: This Agreement shall come into force three months after the deposit of the ratification instruments by three of the signatory countries and shall be operative in each of the other countries one month after its instruments of ratification or accession is deposited.

In witness thereof the accredited representatives mentioned below put their signatures on behalf, and in the name of their governments.

This Agreement is made in Arabic at Cairo on Monday the fifth of Quidea, the year 1376 of the Hijra (3rd of June 1957) in a single original to be deposited with the General Secretariat of the Arab League, and an authentic copy shall be transmitted to each state signatory to this Agreement on acceding thereto.

FIRST PROTOCOL ON BILATERAL ECONOMIC AGREEMENTS WITH COUNTRIES NON-PARTIES TO THIS AGREEMENT

With reference to paragraph 4 of Article 2 and item 2 sub-paragraph b of Article 9 concerning institutional and legal aspects of the Agreement of Arab Economic Unity concluded among the Arab League signatory countries on Wednesday the 3rd of Moharem 1382 (the 6th of June 1962), the contracting parties have agreed that the

provisions of this Agreement shall not prejudice the right of any contracting party to conclude economic bilateral agreements for extraordinary political or defensive purposes with outside parties without prejudice to the objectives of this Agreement.

SECOND PROTOCOL ON THE NECESSARY STEPS FOR THE ATTAINMENT OF ARAB ECONOMIC UNITY

In accordance with the first paragraph of Article 4 of the Agreement of Arab Economic Unity which stipulates the execution of this Agreement in (successive) stages in the shortest time possible, the contracting parties agreed:

1. The Arab Economic Unity Council stipulated under Article 3 of the Agreement shall be established in the course of the period specified in Article 8 of the Agreement.
2. The Council shall undertake in the course of an initial period not exceeding five years the study of the necessary steps for coordinating the economic, financial, and social policies and the attainment of the following objectives:
 - A. Freedom of movement of persons, of work, employment, residence, ownership, making one's will and inheritance.
 - B. Given unrestricted and non-discriminatory freedom to the movement of transit goods irrespective of the means of transport as regards its type or nationality.
 - C. Facilitate the exchange of Arab goods and products.
 - D. Freedom of exercising economic activities without hampering the interests of some of the contracting states at this stage.
 - E. Freedom of using ports and civil airports in a manner ensuring its activation and development.

The Council may recommend to the governments of the contracting parties to extend this stage for a period not exceeding five years when deemed necessary.

3. The Council shall study the necessary steps to be taken for the achievement of all objectives of economic unity in conformity with the specified stages and submit its proposals in this respect to the governments of the contracting

parties to be approved according to their respective constitutional requirements.

4. Two parties or more may agree on terminating the preparatory or any of the other stages and move directly to fully-fledged economic unity.

Source: UNCTAD, Economic Cooperation and Integration Among Developing Countries: Compilation of the Principal Legal Documents, Vol. V (Arab States), TD/B/609 Add. 1, 24 August 1976, pp. 8-14.

